



Forestry Commission

Great Britain and England

Annual Report and **Accounts**

2005 • 2006

FORESTRY COMMISSION

Annual Report and Accounts 2005-06 for Great Britain and England together with the Comptroller and Auditor General's Report on the Accounts.

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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 three 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.

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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 and our Forest Research Agency prepares a formal Report for Westminster.

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Foreword by the Rt Hon Lord Clark of Windermere, Chairman

At the end of my Foreword in last year's Annual Report, I indicated that there was 'more to come' regarding how the Forestry Commission is promoting and developing woodland activities and initiatives, and this has indeed proved to be the case this year.

In August last year we celebrated the dedication of the Forestry Commission's freehold estate for permanent public open access, allowing future generations to enjoy the healthy environment of its woodlands and forests. Although we have permitted access to our woods for decades, this dedication is a catalyst for the process of encouraging even greater recreational use of our woodland.

And then in September the Forestry Commission were proud to win a 'green transport' award from Sustrans – a sustainable transport charity – for its role in helping to develop the National Cycle Network. The award, in the category of

'People – Supportive Landowners', was in recognition of providing many crucial links as well as whole networks of local cycling routes over national forest land. Cycle trails are one of the many benefits we provide in national forests. By doing so, not only do we provide opportunities for folk to enjoy an environmentally friendly means of transport, but going for a regular bike ride in the fresh air and peace and quiet of a woodland does wonders for our health and well-being. Indeed, it is most appropriate that this award has been made to us in the year that we launched our Active Woods campaign to get more people off the couch and into the forest to get fitter and feel better!

Finally, a recent development I am excited about is the approval by Westminster Parliament to allow a Regulatory Reform Order amending the powers of the Forestry Commission in a number of areas of activity in England and Wales. This Order provides us with the flexibility to maximise our potential

Foreword by the Rt Hon Lord Clark of Windermere, Chairman

contribution across many sectors, such as health, nature conservation and community development, to improve people's lives through the provision and management of sustainable woods and forests. Particularly welcome is the power to form formal partnerships with appropriate private sector organisations who can bring commercial expertise and private capital to boost our abilities to deliver, and I look forward to the year ahead and the new opportunities and challenges this presents.

In addition to my responsibilities as Chairman of the Forestry Commission I also Chair our National Committee for England. This Annual Report covers the work of the Forestry Commission at both the GB and England levels reflecting their common source of funding from Westminster. In England as we embrace our new role as an expert delivery body I have been delighted to see real progress across a broad policy agenda. One area I would particularly like to single out is our work to conserve, protect and enhance England's ancient and semi-natural woodlands. Publication of our Keepers of Time statement in June marked a step change for the Forestry Commission in England. These woodlands are the jewels in the crown of English forestry and we have placed them at the heart of our work. I am confident that future reports from the

Forestry Commission will show real progress being made. And I am confident that our approach will not only deliver the very best for these important woodlands it will also ensure that people will increasingly appreciate and enjoy them.



Introduction by Tim Rollinson, Director General

The environmental mantra 'Think Global, Act Local' may be over 30 years old, but it rings as true today as when it first appeared.

Unfortunately, the global loss of natural resources – especially forests – remains a serious concern and shows that turning this advice into positive action has not proved to be an easy task. Indeed, Government policymakers around the world have found that it is an enormous challenge. Yet, this is where the Forestry Commission has the greatest contribution to make.

As well as providing policy advice, the Forestry Commission is Britain's biggest land manager. Our science and expertise is internationally renowned. We are the country's primary producer of wood. By offering many thousands of walks, trails and other recreational pursuits we provide more opportunities for outdoor activities than any other body and manage some of England's, Scotland's and Wales' most precious and beautiful landscapes.

As the country's largest steward of environmentally-protected areas we are used to balancing the pressures of visitors with the needs of the environment.

Seen individually, these superlatives say much about what we do. Taken together, they point quite firmly to what we have to offer that most other organisations cannot. That is, policy development based on expert knowledge which is firmly grounded in practical experience.

Acting local means working with local people and communities, understanding their needs, and finding solutions that work for them as much as they do for us. The many hundreds of local and community projects we have kick-started, or become active in, give us an insight that stems from first-hand knowledge – of the people as well as the land. You will find many examples in this report of innovative and imaginative solutions delivering Government policy at grassroots level.

Introduction by Tim Rollinson, Director General

The policy agenda that we are working to has been transformed through the years. The single objective of growing forests and woods as a strategic timber reserve is well behind us. The big issues facing society today include real challenges in the nation's health, education, energy and the environment. Responding in practical ways to climate change too is absolutely vital. We can contribute to these agendas in very practical ways through the sustainable management of our forests and woodlands.

It is clear that the pace of change will not relent – and we would not want it to. In adapting to changing needs we have evolved and matured as an organisation, aiming to ensure that we are as capable of delivering today's agenda in England, Scotland and Wales, as tomorrow's. This is reflected in some of our recent and emerging priorities:

- 🌲 using trees and woods to regenerate degraded landscapes around our towns and cities, making an important and highly tangible contribution to urban, as well as environmental, regeneration;
- 🌲 developing new markets for wood fuel to substitute for fossil fuels, providing market incentives that support good woodland management;
- 🌲 promoting wood as a vital, sustainable raw material that is renewable and recyclable; and

🌲 working with health authorities through our Active Woods campaign to encourage use of forests and woods for healthy pursuits, both spiritually and physically.

As long as we use our particular strengths in delivery, I have no doubt that the Forestry Commission will continue to have clear and identifiable value in all three countries. In looking forward we will ensure that we focus our resources on those areas where our contribution can make the biggest difference.

Tim Rollinson



The Forestry Commission

in Great Britain

Ministers agreed that a number of the Forestry Commission's functions would be funded directly by Westminster and operated on a cross-GB basis by Corporate and Forestry Support Division. In this GB role, we provide advice and support to the UK Government and to the devolved administrations in Scotland and Wales. We set the standards for sustainable forest management and encourage good forestry practice. We conduct forestry research, provide information and we have statutory duties for some regulations that, by agreement with Ministers, are GB-wide.

Although Forestry is devolved 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 services on finance, human resource management, IT, forestry operations, external communications and internal audit which are organised centrally but paid for by the countries.

FOREST GUIDELINES

The Forest Guidelines are supporting publications to The UK Forest Standard. Following revision of the Standard itself during 2004, we have been working during the year on a major project to revise and update the suite of supporting Guidelines. It was agreed that the Guidelines should be UK (rather than GB) documents and the Forest Service of Northern Ireland is participating in the revision project. The Guidelines expand upon the Standard by addressing the interaction between forests and a range of particular topics. During the year working groups were established for each topic and working drafts were produced. There will be new Guidelines for Forests and People and the Forest as a Workplace and revisions of those covering biodiversity, soils, landscape and historic environment. This is a three-year project that will involve wide consultation and we expect the final versions to be produced in 2007.

UKWAS

We have been working with other members of the UK Woodland Assurance Standard Steering Group to revise the forest certification standard. The UK Woodland Assurance Standard (UKWAS) provides the basis for independent certification in the UK and is used

for all forests managed by the Forestry Commission and an increasing percentage of other woodlands. UKWAS is endorsed by both major independent forest certification schemes operating in Europe; the Forest Stewardship Council (FSC) and the Programme for the Endorsement of Forest Certification Schemes (PEFC). The revision was a complicated process but the final version was produced in the reporting year. It will be launched during 2006.

CPET

We have contributed to the Department for Environment, Food and Rural Affairs (Defra)-led Central Point of Expertise on Timber. This produces advice to public sector bodies on timber procurement, including advice on certification schemes that can be used to provide evidence that timber is legally and sustainably produced.

Great Britain Expert Advice on Sustainable Forest Management

INDUSTRY DEVELOPMENT

Timber continues to compete with both steel and concrete in the construction sector and aims to increase its market share. To help achieve this we continue to work with the Board of the *wood. for good* timber promotion programme. The programme aims are to improve understanding in public and professional users about environmental impacts of forestry and to communicate technical information about getting the best out of timber in use. Increasing emphasis has been placed on providing contractors, architects and specifiers with information on timber properties and potential end uses in order that they can make informed decisions. Interest from architects is increasing with good attendance at a range of seminars held across the country.

We recognise that our ongoing commitment to undertake research into timber properties is a key component in improving the competitiveness of UK-grown wood. The work this year has included research with industry partners to improve the quality and reduce the drying times of UK-grown spruce through the optimisation and acceleration of conventional drying schedules. This brings dual benefits to a more consistent product and a more energy efficient process. We continue to investigate the potential for wood to be used through improving the longevity of timber through the use of coatings and better impregnation with preservatives. Improved utilisation through re-engineering timber is also showing promise through the use of novel cutting and jointing techniques.

The Forestry Commission has increased activity on woodfuel and is working jointly with the private sector on various strategies and implementation plans to harvest significant additional volumes from woodlands. This volume will largely be derived from areas either currently not in management or from ongoing operations whilst ensuring continuity of existing markets. This approach coupled with increasing research input and knowledge transfer will facilitate gradual and sustainable market development.

THE TIMBER MARKET

The windblow early in the year, across Scandinavia and Northern Europe, had the potential to have an impact on trade during the year, however, the effect on the homegrown market was minimal. The market trends realised during 2004 were continued into 2005 with good demand, especially during the early part of the year.

We compiled timber statistics using data from sales of Forestry Commission timber and surveys carried out with the assistance of industry representatives in the Commission's Expert Group on Timber and Trade Statistics. The scope of the annual publication, renamed the United Kingdom Timber Statistics, was extended to include Northern Ireland using data compiled in collaboration with the Forest Service.

The closure of St Regis pulp and paper mill at Sudbrooke will have serious short-term implications for the management of

Great Britain Expert Advice on Sustainable Forest Management

broadleaved woodland especially in southern England. An industry task force to ensure the long-term future of the broadleaved harvesting infrastructure was set up to identify and pursue other opportunities for hardwood timber. The most likely outlet is likely to be woodfuel. It is recognised that information on potential biomass yield will be of particular value, work is ongoing to identify and collate that data.

SUSTAINABLE MANAGEMENT OF THE FORESTRY COMMISSION

'Securing the Future' the UK Sustainable Development Strategy, asks Departments to prepare an action plan for the sustainable management of the Government estate.

The sustainable management of the forests managed by the Forestry Commission, on behalf of the three country administrations, is independently certified under the UKWAS scheme, already meeting the Government's intentions. During the year we worked with Atkins Environmental to develop a plan for sustainable management in our buildings and in our corporate management activities covering waste management, water and energy use, transport, human resources and the development of formal data gathering and reporting procedures. The draft action plan was approved in December 2005 and we will report on progress in implementing the plan by the end of 2006.

BETTER REGULATION

The Chancellor announced the Government's policies on Better Regulation in the 2005 budget speech and implementation of these policies began immediately. The Better Regulation Executive (BRE) was formed to implement the Government's reform programme, which aims to deliver year on year reductions in the total administrative burdens faced by business.

As a first step BRE launched the Administrative Burdens Project which for the first time will establish a baseline against which targets can be set. The Forestry Commission is playing a full part in the initiative by taking forward the forestry-related elements of the exercise. The results will be published in 2006.

The second major initiative of the better regulation agenda is the introduction of annual Departmental Simplification Plans. Our first plan will be published in autumn 2006 and will set out how we propose to streamline rules, regulations and business practices and to reduce the amount of paperwork and time spent dealing with requests for information.

We estimate that our initial proposals will save business some £6,700,000 over the next five years.

GB RESPONSIBILITIES FOR PLANT HEALTH AND FOREST REPRODUCTIVE MATERIAL

By agreement of Ministers in England, Scotland and Wales, the Forestry Commission retains GB-level responsibility for Plant Health, as it relates to trees and timber, and for Forest Reproductive Material. Plant Health covers a system of checks on plants and plant products

to ensure they do not spread pests of concern to Britain, other Member States and third world countries. Forest Reproductive Material regulation concerns the marketing of seeds, cones, cuttings and planting stock of 46 regulated species and the genus *Populus* to ensure that planting stock is traceable to a registered source and that those who buy the material have sufficient information about its origin. Both areas are subject to domestic and European Union (EU) regulation.

FOREST REPRODUCTIVE MATERIAL CONTROL SYSTEM

The Forest Reproductive Material (FRM) Regulations have now been in place for three years. A database has been built to administer them and a system of control developed. The number of registered suppliers of FRM reached 185.

The seed collection inspection system was improved to reduce the paperwork for both suppliers and Forestry Commission staff and to allow for more effective and efficient administration. Training seminars on seed collection inspections were provided for Forestry Commission staff in the three countries throughout the year. There are now woodland officers in each Conservancy with up-to-date knowledge of FRM and the new procedures for seed collection inspections.

A series of training days was held for the Technical Support Unit of Forest Research to provide a group of 'Basic Material' inspectors based around the country. They will visit stands to assess whether they can be accepted onto the Basic Material register and whether they should be given indigenous status.

A total of 715 Master Certificates were applied for and issued. 365 were for species covered under the Regulations and the rest were species covered under the Voluntary Scheme for Native Trees and Shrubs.

A nursery inspection programme for 35 nurseries was started and will be completed in 2006; no serious infringements have been reported to date.

It was decided during the year to withdraw public funding for the seed testing service provided by Forest Research. The Regulations no longer require the provision of an Official Seed Testing Station and permit suppliers to test their own seed. A significant reduction in the numbers of seed tests requested from Forest Research since the introduction of the new Regulations led to a steep rise in unit costs.

Legislation

A number of meetings of the EU Standing Committee on Seeds were held resulting in a number of EU decisions being finalised. One allows suppliers to import seed from certain countries outside the EU that have an equivalent system of control. Amendments to the GB Regulations have been drafted to bring the legislation up to date with these measures.

PLANT HEALTH

The primary aim of our plant health controls is to ensure the legitimate free flow of goods of all kinds both into and out of the country. Our suite of import controls is based on EU requirements, set out in the main EU Plant Health Directive (Council Directive 2000/29/EC) and various complementary instruments, and we provide an export certification service to meet the demands of our trading partners.

Legislation

The Plant Health (Forestry) Order 2005 was laid before Parliament on 8 September and came into force on 1 October. The Order revoked and consolidated the 1993 Order and its amendments and implemented changes that had been made to the EU Plant Health Directive.

Import Inspections of Sawn Wood

Over the year, 932,000 m³ of sawn wood subject to quarantine control were imported (2004-05: 1.2 million m³) and 4,568 inspections were carried out (2004-05: 4,400). Forty incidents of non-compliance were detected in sawn timber consignments. The majority (38) of these incidents involved documentary infringements. As in previous years, we 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 over 99 per cent of cases.

The Forestry Commission physically inspected all imports of wood of Oak (*Quercus* spp.), Oregon Maple (*Acer macrophyllum*), and Tanbark Oak (*Lithocarpus densiflorus*) originating in the USA for the presence of *Phytophthora ramorum*. No instances of the fungal pathogen were detected.

The Food and Veterinary Office of the European Commission, which is responsible for overseeing the implementation by the Member States of the EU's rules on Plant Health, carried out a monitoring mission to GB in January 2006. While their final report has yet to be published, there were no findings of concern noted and no recommendations for change made in their draft report.

Fees for Import Inspections

We have compiled a comprehensive consultation document to explain the complexities of changes to plant health import legislation that require us to change the way we calculate our inspection fees and change the range of material inspected. The consultation will also explain the new rates we propose to charge as a result of the lower volume of timber inspected following EU enlargement. We will be consulting the timber import trade on our proposals early in the new financial year, a little later than originally intended. This will be the first time that we have had to increase our fees since 1999 as we have managed to make a number of operational savings over the years.

Wood Packaging Material (WPM)

We reported last year that we had identified a number of options for collecting charges for inspections of wood packaging material and dunnage, and that we planned to introduce fees by the end of December 2005. However, we have identified a number of difficulties in applying wood packaging material inspection charges fairly to all imported consignments and have concluded that we cannot yet proceed with a consultation. Other EU Member States have encountered similar problems and a European Working Group was convened in February to review inspections and inspection charges for wood packaging material.

Over the year we performed 4,700 inspections on imports of goods of all kinds to check for the presence of wood packaging material (WPM). In 1,550 (33 per cent) of these WPM was found to be present, of which 735 (47 per cent) did not comply with landing requirement although the material

was judged not to present a plant health risk. In four of the cases, however, live wood boring beetles and their larvae were found and remedial action taken.

During the year more countries moved to implement import requirements based on the International Standard for wood packaging material, ISPM No. 15, notably North American countries (in September 2005) and China (in January 2006). China's implementation meant the end of its requirement that all imports with wood packaging material had to be accompanied by a phytosanitary certificate. This change saw a 99 per cent reduction in the issue of certificates by the Forestry Commission – a considerable saving in the administrative and financial burden on British exporters.

As reported previously, the EU implemented its new import controls for WPM on 1 March 2005. It had been originally planned to include a requirement that WPM (and dunnage) be produced from debarked wood. However, this element was suspended until 1 March 2006 to enable further work to be carried out, both in the UK and elsewhere, to determine the efficacy of certain treatments in reducing risk. This work failed to produce a definitive conclusion and yet more research is needed. The European Commission and the Member States agreed to further delay a debarking requirement until 1 January 2009, to coincide with a formal revision of ISPM No.15, and will review its position in September 2007. The Forestry Commission played a full part in the EU debate on WPM and will continue to contribute to the process.

Phytophthora ramorum* and *P. kernoviae

In conjunction with Defra's Plant Health & Seed Inspectorate we have continued to monitor for outbreaks of these two pathogens.

As reported last year, the management of the campaign against both *P. ramorum* and *P. kernoviae* is being overseen by the Interdepartmental Phytophthora Programme Board. In 2005 the Board agreed that the Forestry Commission should undertake a five-year programme of re-survey work of the high and low risk sites in England and Wales surveyed in 2004 to ascertain if they were still disease free. A total of 149 woodlands were surveyed with no positives being found. There was no formal survey carried out in Scotland as the Pest Risk Analysis indicated a lower level of risk. However, surveyors, in the course of their duties, were asked to take samples from any *Rhododendron ponticum* which displayed possible symptoms of *Phytophthora*. No samples were taken. A further 20 per cent of the 2004 sites in England and Wales will be re-surveyed in 2006.

Defra's Plant Health & Seeds Inspectorate and the Forestry Commission have continued to carry out surveys in Cornwall to determine the incidence of *P. kernoviae*. Up to and including December 2005 *P. kernoviae* had been found at 22 locations in Cornwall. Further intensive surveys in Cornwall and Devon for both pathogens are planned for 2006.

In December 2005 we recommended to Ministers that we move from a strategy of eradication of *P. kernoviae* to one of containment leading to eradication wherever possible. A risk matrix was drawn up which

ranked the woodlands and heritage gardens infected with *P. kernoviae* on the level of infection, the value of the woodlands, the degree of public access and whether there was plant movement. Prior to work commencing, we held a meeting with the landowners in the area to explain our proposals. With joint funding from Defra, a number of woodlands classified in the highest risk category have either been partially or totally cleared of rhododendron in a programme which will continue for the next two years and which will be kept under constant review.

Infected rhododendron at five outbreak sites in South Wales were destroyed and the sites are being kept under surveillance.

In October 2005, on behalf of the European & Mediterranean Plant Protection Organisation, we organised a three-day conference in Falmouth, Cornwall on '*Phytophthora ramorum* and other forest pests'. Over 70 delegates attended the conference, mainly from the UK and Europe but also from Canada, the USA and Australia.

Other Pests and Diseases

We have continued to work with Defra to combat a small, but persistent, outbreak of Gypsy moth (*Lymantria dispar*) in the London Borough of Redbridge where it was first found in 1995. Although no moths were trapped in 2004, our pheromone traps captured six moths in 2005 indicating continued survival there. A new outbreak was confirmed in Aylesbury, Buckinghamshire in July 2005, and 324 moths were trapped in August. We will continue to monitor the situation using

pheromone traps at both sites in 2006 and have published information on the moth on a local Aylesbury website. This will be followed up with an information leaflet and report form distributed to over 2,000 households.

Following an outbreak of Red Band Needle Blight (*Scirrhia pini*) on pines in the Forestry Commission's nursery at Delamere, Cheshire, a Working Group has been set up to look at the threat posed by the disease. It is already quite widely present in England and more locally elsewhere and is a cause of serious concern as a defoliating disease of Corsican pine.

The EU-wide emergency measures aimed at eradicating the outbreak of Pine Wood Nematode (*Bursaphelenchus xylophilus*), first

found in the Setubal region of Portugal in 1999, continued. As in previous years we carried out a programme of surveys of trees, wood chips and imported wood to detect the nematode in GB. Over 100 samples were analysed and all were negative.

As in previous years, we placed around 200 pheromone traps at various ports around the country to detect introductions of the dangerous European bark beetle *Ips typographus*. We captured a total of three beetles (2004-05: 19). This is far less than in the previous years but the number of catches can fluctuate, therefore, we will maintain our port trapping programme as part of our general pest surveillance strategy.

European and International Forestry Policy

MINISTERIAL CONFERENCE ON THE PROTECTION OF FORESTS IN EUROPE (MCPFE)

Throughout the year a number of workshops have been organised to contribute to the implementation of the MCPFE Work Programme. The issues addressed have included: illegal harvesting and related trade in Europe; climate change and forest genetic diversity; policies fostering investment and innovation in support of rural development; competitive forest operations in Europe; cultural aspects of sustainable forest management and cross-sectoral co-operation. The Forestry Commission continues to be an active participant of the process and has been represented by experts from across the organisation in various working groups.

In preparation for the 5th Ministerial Conference, countries have provided the Liaison Unit Warsaw with initial ideas on the issues to be addressed by Ministers at their next Conference, which has been provisionally scheduled for autumn 2007 in Warsaw. These early suggestions will be further discussed and elaborated at a Round Table Meeting of the process in late April 2006.

EUROPEAN UNION

UK Presidency-EU Forest Director Generals' Meeting

As one of the events organised under the UK's Presidency of the European Union, the Director General invited the EU Forest Director Generals and the European Commission to Scotland, 12-14 September, to discuss the framework in which forestry currently operates in Europe. The meeting aimed to identify actions at the EU level that could assist Member States in delivering the sustainable

management of their forests. The Director Generals met the Scottish Forestry Minister, Rhona Brankin, MSP and visited key sites in Scotland to see at first hand the challenges and opportunities in delivering sustainable forest management in Scotland. The report of the meeting and outputs from the discussions served as a useful contribution to the European Commission's development of the EU Forest Action Plan on Forests.

The value of the meeting was recognised by the European Commission and the other Member States and to continue this high level dialogue and information exchange, Austria will hold a similar meeting of EU Director Generals during their Presidency in Gmunden, June 2006.

EU Forest Action Plan

In May 2005 following a review of the EU Forestry Strategy the European Council gave the European Commission the mandate to develop an EU Forest Action Plan as a framework for the implementation of forest-related actions at Community and Member States level in Europe. The UK, with other Member States, has been involved at key stages in contributing to the Plan's development taking an active role in the 'experts' working groups established by the European Commission. The Action Plan is expected to set out a number of core 'Actions' at Community and Member States level identifying the key instruments that could be used to implement the proposed actions and deliver the Plan. The European Commission expects to formally present the Action Plan at a meeting of the Standing Forestry Committee in June 2006.

European and International Forestry Policy

LIFE+

In December 2005, agreement was reached on a new Financial Instrument for the Environment, LIFE+. The general objective of LIFE+ is to contribute to the implementation and development of Community environmental policy and legislation, including the integration of the environment into other policies. In March, the European Commission produced guidance on implementation of the LIFE+ Regulation at the national level. The Forestry Commission has had detailed discussions with Defra about the UK's forest monitoring requirements under the Regulation and how we should proceed to build these into any UK National Level Programme based on national needs as well as the UK's international commitments.

UNITED NATIONS FORUM ON FORESTS (UNFF)




The UNFF, established in 2000, provides an important focus to promote sustainable forest management globally and to implement existing commitments. The work of the UNFF is supported by the Collaborative Partnership on Forests, which facilitates co-operation and co-ordination amongst the key international institutions involved in forests. The Forestry Commission led the UK delegation at the fifth and sixth sessions in New York in May 2005 and February 2006.

At the fifth session in 2005 (UNFF5), the main objective was to review the effectiveness of the current international arrangement on forests and to consider future action on forest issues, including the institutional framework and how to strengthen long-term political commitment. Wide differences between Member States, particularly on the issues of goals and finance, meant that despite two weeks of negotiations,

no conclusions could be reached and the session closed without a resolution. Defra Minister Elliot Morley attended the high level segment during UNFF5 and highlighted opportunities offered by the upcoming UN Millennium Review Summit for further progress on sustainable development and forest issues.

The sixth session (UNFF6) met in February 2006 to continue negotiations carried forward from 2005 on the review and development of the international arrangement. Many of the forest-related issues that previously eluded consensus resurfaced at UNFF6, including references to environmental services, new and additional financial resources, illegal logging and the consideration of a legally-binding instrument.

UNFF6 renewed the mandate of the UNFF until 2015 and positive outcomes included the agreement on four global objectives:

-  reversing the loss of forest cover and increasing efforts to prevent forest degradation;
-  enhancing forest benefits and their contribution to international development goals;
-  increasing the area of protected forests and areas of sustainably managed forests; and
-  reversing the decline in official development assistance for sustainable forest management, a stronger regional component of the international arrangement; and improved working modalities (meeting biennially rather than annually after 2007, with a review in 2015).

European and International Forestry Policy

UK FOREST PARTNERSHIP FOR ACTION

The UK Forest Partnership for Action was created in the run-up to the 2002 World Summit on Sustainable Development to promote sustainable development across the forest sector, and brought together key players from Government, business and environmental groups. The Forestry Commission continued to provide support for the Partnership, by providing the Secretariat.

In many regards, the Partnership has achieved what it set out to do, both in general terms and also in the priority areas for action (forest certification, forest restoration and protection, illegal logging, timber procurement) promoting sustainable development in the forest sector. The Partnership has added value in that it has helped to: develop links for joined-up working, reach a shared understanding, remove barriers, facilitate dialogue, and share knowledge.

Important progress has been delivered on the issues of certification, illegal logging and timber procurement, with work now being dealt with very effectively elsewhere, often involving the partners. Work on forest restoration and protection is continuing, with the UK actively taking forward the Global Partnership on Forest Landscape Restoration with a number of the other partners.

EUROPEAN FOREST INSTITUTE (EFI)

The EFI was established in 1993 to provide a forest research and information resource to meet the needs of a rapidly changing Europe and, with the signing of the Convention in August 2003, the EFI was established as an international organisation.

As a signatory, the UK continued to work with the Foreign and Commonwealth Office to follow the necessary steps towards ratification of the Convention.

GLOBAL PARTNERSHIP ON FOREST LANDSCAPE RESTORATION

The UK is a lead partner with WWF, the global conservation organisation; IUCN, the World Conservation Union; and a range of Governments and international organisations who recognise the importance of restoring forest cover in parts of the world where forests have been lost or heavily degraded and who want to be part of a co-ordinated global effort.

The Partnership aims to catalyse and reinforce a diverse network of restoration programmes that deliver benefits to local communities and to nature and fulfil international commitments on forests.

The Partnership held a Global Workshop in April 2005, hosted by the Government of Brazil. The workshop considered outputs from national, sub-regional and regional workshops that had already taken place, developed recommendations for further action, and stimulated increased momentum and investment in forest landscape restoration programmes.

The Global Workshop marked the end of the first phase of the Partnership. The second phase will now aim to broaden the Partnership and bring in new members, including Governments, who are able to contribute to implementation.

European and International Forestry Policy

In addition to broadening the partnership and bringing in new members, the founding Partners are continuing to build support for forest landscape restoration, developing a learning network, and building a portfolio of initiatives to improve understanding and practice related to Forest Landscape Restoration.

17TH COMMONWEALTH FORESTRY CONFERENCE

Following the 17th Commonwealth Forestry Conference in Sri Lanka on 28 February to 5 March 2005, the Forestry Commission published the Conference Proceedings on behalf of the Standing Committee on Commonwealth Forestry. With eradication of poverty and hunger at the top of the global agenda, the Conference theme 'Forestry's Contribution to Poverty Reduction' could not have been more relevant.

In 2005/06 the Forestry Commission spent £11.5 million on research and scientific services to support sustainable forest management in Great Britain. The research ranged from highly applied projects of direct relevance for forest managers to strategic development of concepts and models to inform policy. The science budget also covered analytical services, monitoring and the transfer of knowledge and technology to end-users. The bulk of expenditure (approximately £10.6 million) was with the Forestry Commission's own agency, Forest Research, which has presented a separate, detailed report on its activities to Parliament (ISBN 0 10 293637 4).

A SCIENCE AND INNOVATION STRATEGY FOR BRITISH FORESTRY, 2005

The Strategy was approved by Forestry Commissioners and Ministers in 2005 and implementation began under the direction of the Research Strategy Management Board¹. The Board approved expenditure plans that brought forward the strategic research priorities of social and economic development and climate change. Expenditure also reflected the Strategy's strong focus on the communication of research results and the transfer of knowledge. Three Research Liaison Officers (one each for Scotland, Wales and England) were appointed by Forest Research to provide a new communication pathway between researchers and the users of research. Empowerment and support for these new posts will be a key future element in delivering the Strategy.

Another strong emphasis in the Strategy is the means to ensure country input to the detailed consideration of programmes and projects to be funded by the Forestry Commission. Four-country Programme Advisory Groups for priority research areas have been proposed to serve this function. Progress has been slow in instituting this mechanism due the heavy demands on the time of the key individuals required to give the Groups appropriate weight. Only one Group met (on Biodiversity and Habitat Restoration) in 2005-06; but four more are planned to meet in summer 2006. Progress in 2005-07 will be keenly watched by the Research Strategy Management Board.

SCIENCE INTO POLICY – CLIMATE, AIR, WATER AND SOIL

Climate change, water resources and soil management were areas of active and cross-cutting research. For example, significant progress was made in understanding the importance of woodland type on the quantity and quality of groundwater recharge in areas of anticipated water shortage. Equally valuable advances in hydrological research increased the understanding of the contribution woodland, especially floodplain woodland, can make in mitigating flood risk. However 2005-06 was most noteworthy for sustained input of Forest Research scientists into major policy developments across Britain. Hydrologists were heavily involved in advising the Forestry Commission and other parts of Government on the characterisation of water bodies, which is a key phase in the implementation of the Water Framework Directive. The same scientists have also contributed to the growing

1. The Board comprises: a representative of each of the three National Offices of the Forestry Commission; the Chief Executive of the Northern Ireland Forest Service; the Chair, Dr Victoria Edwards OBE of Portsmouth University; the Research Director of Forest Research (advisor to the Board); and the Forestry Commission Research Purchasing Manager (secretary to the Board).

interest in land-use measures as a sustainable approach to flood management – a major consideration because of the predicted increase in flood risks under climate change.

Climate change research by the Forestry Commission and advice from our scientists were an important part of the evidence base for the land management aspects of the reviews of the UK Climate Change Programme and the Scottish Climate Change Programme. The new Programmes covered mitigation measures such as use of woodfuel for renewable energy and carbon sequestration by forests. Policies for mitigation of climate change have been paralleled by development of adaptation policies by UK Government and the Devolved Administrations. In the case of woodlands, Forestry Commission research and experience has addressed how woodland management should adapt to protect not only woods but also other habitats.

Effects of climate change on soil are a growing concern for policy makers and our soil scientists have been part of the debate at the science-policy interface in the UK and Europe. They have reviewed the implications of climate change for forest soils and established some important principles for affecting impacts through choice of tree species, woodland design and operational practices.

There was also intense activity in monitoring, recognised throughout Europe as essential to the development and effective delivery of environmental policy. In addition to the ongoing collection of environmental data, scientists have been reviewing existing monitoring networks to meet the future challenges for better information on soil,

biodiversity and carbon stocks. Forestry Commission scientists have played a leading role in the pan-European debate that has been driven by EU policy and wider international conventions to protect the environment.

PROTECTING FORESTS FROM PESTS AND DISEASES

Work on controlling a well-known insect pest, *Hylobius abietis*, a weevil that attacks and kills young trees on replanted sites, was the subject of continuing research. The objective is to develop integrated management systems that will minimise pesticide use. This major and long-running programme is nearing completion and savings in resource were used to begin new research into the impacts of climate change on pests and diseases. The wealth of information we have on *Hylobius* will make it an ideal model for the new programme, which will be developed in detail during 2006-07. Initial work also began on another new area of research, investigating the implications for pest attacks of changes in silvicultural practice away from clear-fell systems.

A collaborative European project led by Forest Research has been modelling the relationships between environment, tree physiology and vulnerability to pests that attack through the bark. The 'PHRAME' model has focused on attacks by pine wood nematode and was successfully presented at a number of scientific meetings during the year.

FOREST PRODUCTS

Research on wood properties made considerable advances during the year owing much to the interaction and collaboration between scientists and the growing and

processing sectors of the British forest industry. Methods have been developed to assess sawlog quality in standing trees in order to provide improved information about the quality of future timber supplies. The aim is to integrate this assessment into normal forest survey and production forecasting procedures. Further refinements were made to a computer-based model that predicts conifer timber quality, and evaluates the potential financial benefits, from silvicultural, site and stand characteristics and genetic quality of planting stock. Work has also been carried out to evaluate the practical implications of including additional wood characteristics, such as grain angle, microfibril angle and 'stiffness', in the conifer breeding programme.

Bio-energy has emerged as a priority research area. The considerable expertise within Forest Research has been brought together in the Woodfuel Research Centre to co-ordinate research and advice to policy-makers, growers and users of woodfuel.

BIOLOGICAL DIVERSITY

An extremely varied programme of research on forest wildlife was carried out. 'Restoration' was a continuing focus of both research and scientific advice – this included restoration of ancient woodland sites planted with conifers as well as the restoration of non-woodland habitats, such as heaths and bogs, converted to forest. The world-wide interest in the development of robust indicators of biological diversity was reflected in projects on using woodland structure as an indicator and on a short-cut measure using invertebrates found on leaves. The expertise on indicators resident in Forest Research was demonstrated at several scientific meetings and conferences.

We participated through direct funding or collaboration in numerous studies that have brought new understanding of a wide range of woodland plants and animals. This body of research has generated practical advice and guidance to improve the protection of threatened species. Examples include capercaillie, cross-bills, dormice, pine martens, fungi, wood ants, butterflies, red squirrels, junipers, twinflower and bats.

Work started on two important pieces of guidance: on the value of deadwood in woodland and on the management of open habitats within woodland.

SUSTAINABLE MANAGEMENT

About 60 per cent of British timber comes from forests certified under the UK Woodland Assurance Scheme, which requires evidence that a range of management options has been considered before a particular course of action is selected. A prototype decision support system covering the establishment phase of upland forests was tested by forest managers. The interactive system gives guidance on the type of cultivation, species, plant type specification, planting time and herbicide treatment.

Rhododendron ponticum, although a colourful addition to our countryside, is unwelcome in many situations because it is an aggressive non-native invader. In woodland it prevents natural regeneration and restricts biodiversity. In recent years there has been an additional reason for efficient control because rhododendrons are a host of the tree pathogens *Phytophthora ramorum* and *P. kernoviae* (page 13). Forest Research has published a practice guide on the management and control of invasive

Rhododendron ponticum synthesising the results of research experiments conducted over the past five to ten years. The work supported our wider policy of undertaking research to investigate alternatives to chemical pesticides, to minimise use when there is no practicable alternative and to protect operator and environmental safety by developing best practice in the storage, dispensing and application of pesticides.

Updated guidance was produced on the use of sewage sludge in woodlands and on the use of brush mats to protect soil during harvesting operations.

PEOPLE AND FORESTS

We continued to collaborate with other departments and agencies in commissioning household recreation surveys. These surveys monitor the number of trips to woodland and put them into the wider context of other countryside recreation. The Countryside Agency is leading a consortium for the England Day Visits Survey 2005, to report in summer 2006. We are supporting Scottish Natural Heritage in commissioning the continuous Scottish Recreation Survey, now in its third year. A methodology review has been completed for a similar survey in Wales, to be piloted in 2006.

The Forestry Commission has invested heavily in recreation and forest access in recent years. Recognising the increasing diversity and segmentation of the recreation market, we completed a substantial project quantifying the value of forest recreation activities. Concentrating on the local impact of these activities this study has shown the full spread of their impact on local economies. Benefits

from forestry to physical and mental health were the subject of a scoping study looking at how to measure the effects of changes to the provision of accessible greenspace. The findings from this study are being taken forward in 2006-07. Health was also the focus of a study commissioned jointly with English Nature into the potential economic contribution of countryside access for health. With the New Economics Foundation we developed an evaluative approach to the use of woodlands by children in the Forest School programme, where the outcomes were assessed in part by the children themselves.

The commitments to social and economic research made in the Science & Innovation Strategy were taken forward by further expansion of the Social Research Unit in Forest Research. This allowed continued support for several collaborative EU projects and initiation of a major new project in Scotland to capture hard evidence of all the benefits that communities are getting from activity in forests. This covers a huge diversity of interests, ranging from sport in the forest to mushroom and berry picking, to the importance of woodlands in the landscape and the role of woodlands in health and learning. The study is intended to provide a model for future evaluations of complex initiatives delivering both economic, social and policy outcomes. The same researchers are also evaluating forestry in the Active England programme.

We continued to explore how forestry can contribute to the Government's priority for greater diversity in countryside access, with research related to racial equality, disability, perceptions of crime and risk, the cultural importance of woodlands in the countryside and landowners' attitudes to access.

Tourism is an increasingly important part of the rural economy. We completed and will shortly publish a study into the part that forestry plays in supporting small to medium enterprises in rural tourism. Our research continues to highlight the importance of woodlands in defining place and as a point of reference in personal and community identity. With the Peabody Trust in London our research demonstrated the value of the outdoor and wooded environment to the housing tenants. In the National Forest in England a six-month ethnographic study demonstrated the role of the forest in building new social capital in the area. People, businesses, local authorities and organisations of all kinds were shown to have a shared, common interest in the stewardship of their local environment. The findings are very relevant to rural development policy and also show that a social dimension, especially communication, is likely to be a significant factor in the success of regeneration projects.

Social science became the flagship for the Forestry Commission's policy of funding, or helping to fund, research studentships. Eleven were supported in 2005-06 on a range of topics including restorative landscapes, small landowners in the rural economy and volunteers in forestry.

A study was initiated to describe the impact of the forest industries on the GB economy by country and sector in a consistent manner. It is hoped that this study will introduce a new baseline for the continuing development of the wider forest industries. Putting this together with our work on the 'non-industry' benefits, we are building up the clearest picture yet of the contribution forestry makes to the economy and people of Great Britain.

People who use forests include those for whom the forest is a workplace. Research has continued to provide information and guidance on protecting their health and safety at work. In 2005-06 this focused on compliance with the European Directive on Physical Agents. The Directive covers many workplace hazards of which those most relevant to forestry are whole body vibration, hand-arm vibration and noise exposure. An important output from the research, undertaken in partnership with the Health and Safety Executive (HSE) has been HSE guidance giving advice to managers and operators on how to manage the risks from exposure to whole body vibration.

Forestry Commission

Organisation

THE BOARD OF FORESTRY COMMISSIONERS

The Board of Forestry Commissioners met in June, September and December 2005, and March 2006. They discussed a wide range of GB and international forestry issues, including forest research, health and safety, the Forestry Commission's strategy and corporate governance, Forest Holidays, communications and the Forestry Commission 'brand'. They also devoted part of the September meeting to looking at wide ranging strategic issues, such as communications, sustainability, funding and research.

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

THE EXECUTIVE BOARD

The main aim of the Executive Board (EB) is to assist the Director General and Country Directors in leading the Forestry Commission by setting policy on corporate matters and ensuring effective management.

The members are the Executive Commissioners (Director General and the three Country Directors), the Chief Executive of Forest Research and the Heads of Human Resources, Finance and Corporate & Forestry Support. The EB met in April, June, August, October and December 2005 and February 2006.

The EB addressed a wide range of issues during the year including the Forest Holidays

PPP, the Business Improvement Programme and efficient delivery of shared services, procurement policy, governance issues, development of key systems including GLADE, Certification and Climate Change.

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

THE FORESTRY COMMISSIONERS' ADVISORY PANEL (FCAP)

Under the Chairmanship of newly appointed Barrie Hudson, the Panel continued to advise Forestry Commissioners on a wide range of issues throughout the year. They met twice during the year, with both meetings being held outwith Edinburgh to seek information on the ground from practitioners.

In May, the Panel met with scientists at Forest Research station in Roslin to discuss the influence of forest management on products, markets and income.

In September, the Panel visited Hainault Forest and Thames Chase on the theme of 'Health and Well Being', with the Panel considering the question of how the Forestry Commission can support different woodland owners to enhance the role of woodlands in improving the life of their communities.

The Panel's Annual Report was presented to the December Forestry Commissioners' meeting, and can be viewed at the Forestry Commission's website, www.forestry.gov.uk.

Membership of the Panel is noted in Appendix 3.

REGULATORY REFORM

A Regulatory Reform Order approved by the Westminster Parliament came into force on 15 March 2006. The Order increased the powers of the Forestry Commission in a number of areas of activity in England and Wales by amending the Forestry Act 1967 and the Countryside Act 1968. The Order:

- 🌲 allows the Forestry Commission to form or participate/invest in companies, to provide loans and establish Charitable Trusts;
- 🌲 allows the Forestry Commission to delegate its power to charge in connection with the provision of facilities in the public forest estate;
- 🌲 gives the Forestry Commission the power to commercially exploit forestry research; and
- 🌲 allows the Forestry Commission to require restocking following unlawful felling without first obtaining a conviction and to enforce restocking requirements against lessees and licensees as well as against freeholders.

Although the Order only applies to England and Wales, we are currently involved in the process to facilitate identical changes in Scotland by passing primary legislation through the Scottish Parliament.

However, the power to exploit forestry research applies across England, Wales and Scotland. This is because intellectual property law, unlike laws relating to forestry, is a matter reserved to the Westminster Parliament under the Scotland Act 1998.

FOREST HOLIDAYS

The Forestry Commission continued to pursue its search for a partner to run its Forest Holidays business under the Government's Public Private Partnership and Wider markets Initiatives. After a rigorous and very competitive selection process the Camping and Caravanning Club were appointed Preferred Bidder in December 2005 and negotiations continued during the remainder of the year to complete the deal which was expected to be signed during April or May 2006.

The Club's offer and the deal envisages that all the Forestry Commission's 21 Campsites will be modernised and brought up to current standards, a new forest cabin site will be built and added to the current three sites, and permanent units of accommodation will be introduced to the campsites. The new Joint Venture, owned on a 51 per cent/49 per cent basis, will manage the business and it is expected that this long overdue modernisation will successfully transform the business together with the opportunity to develop further sites throughout GB. The Forestry Commission will continue to take an active role in the business through its 49 per cent stake and membership of the Joint Venture Management Committee.

AWARDS

Queen's Honours List

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

Birthday 2005

- 🌲 Peter James Oliver OBE, Lately Chairman, Woodland Trust. For services to wildlife conservation;

Forestry Commission

Organisation

🌲 Glynn Duane Bullock MBE, Forest Warden, Forest of Dean. For services to forestry; and

🌲 Michael Robert Henderson MBE, Raw Materials Manager, St Regis Paper Company. For services to the forest industry.

New Year 2006

🌲 Martin Frank Gale CBE. Vice-President, International Forestry, UPM Kymmene Corporation and Forestry Commissioner. For services to forestry; and

🌲 Eric Gordon Wright MBE. Forest Craftsman, Forestry Commission, North West England Forest District. For services to forestry.

Wood Awards for the Best Use of British Timber

The Forestry Commission sponsors a specific category in the Wood Awards for the Best Use of British Timber. This year's winner, 'Pilton Barn' in Somerset, was reconstructed from English Oak some thirty years after the medieval oak-frame roof was destroyed by fire. The judges described the barn 'a superb example of workmanship backed up by detailed research ... it is an extremely interesting and effective use of English timber'. The awards received very good press coverage in both architectural and construction magazines. Events of this type continue to raise the profile of British timber.

Green Fleet Public Sector Innovation Award

The Mechanical Engineering Services (MES) Business Unit was runner-up in the Green Fleet Public Sector Innovation Award for 2005. MES worked with industry to identify seven LPG installation sites north of the border, the Forestry Commission has increased LPG usage across its fleet to a total of 155 vehicles. Defensive driver training, known to have a significant bearing on fuel consumption, is encouraged among vehicle users covering in excess of 5,000 miles per year.



Photograph courtesy of The Wood Awards

SENIOR STAFF

Andrew Raven OBE

On 5 October 2005 we were saddened to hear about the death of Andrew Raven OBE, Non-executive Forestry Commissioner. Andrew was also Chairman of the Deer Commission Scotland and was involved in many organisations across Scotland. He had been Chairman of the National Committee for Scotland since the establishment of Forestry Commission Scotland.

Simon Hodgson was appointed Chief Executive Forest Enterprise England on 15 September 2005.

Rod Leslie was promoted to Head of Programmes Forestry Commission England on 15 September 2005.

Les Bryson was promoted to Head of Operations Forest Enterprise Scotland on 30 September 2005.

Ian Forshaw was promoted to Director Wales on 15 December 2005.

Simon Hodge was promoted to Head of Policy and Economic Issues in Forestry Commission Scotland on 1 February 2006.

Martin Gale CBE, Non-executive Forestry Commissioner, was re-appointed for a three-year term from 1 April 2006.

Gareth Wardell, Non-executive Forestry Commissioner, term of office was extended from 1 April 2006 to 17 January 2007.

Dr Olytayo Adebawale was appointed as a Non-executive Forestry Commissioner for a three-year term from 1 April 2006.

Dr Calum MacDonald was appointed as a Non-executive Forestry Commissioner for a three-year term from 1 April 2006.

Simon Hewitt, Director Forestry Commission Wales, retired on 31 May 2005.

Roger Herbert, Head of Country Services, retired on 30 June 2005.

Dr Victoria Edwards OBE, Non-executive Forestry Commissioner, term of office ended on 31 March 2006.

PEOPLE INITIATIVES

A number of key people initiatives have happened through the year.

liP

The second exercise to assess the impact our continuing investment in the learning and development of employees has, through an Investors in People review. The external Board assessing the Forestry Commission was able to conclude that the Commission has been successful in maintaining the principles of the Investors in People standard. Our accreditation under liP will continue for another three years.

Staff Survey

During the spring and autumn of 2005, staff were interviewed to ascertain what their views were about working within Forestry Commission. The first was the internal biennial Employee Opinion Survey and the second the external Investors in People accreditation. Both exercises provided valuable information about employee's views.

Forestry Commission

People

More people responded to the 2005 Opinion Survey than previously, just over 66 per cent. The key messages were that employees are proud to work for the Forestry Commission and committed to providing a high quality service to customers. The area in need of most improvement was communication, where employees relied more on the grapevine than formal communication from their managers. This is something, which the Forestry Commission is taking seriously in 2006-2007.

Your Good Health

A new initiative which focuses on the Wellbeing of our employees was introduced in July 2005, *Your Good Health* (Iechyd Da in Wales). It focuses on raising people's awareness about their health across a range of physical and mental issues. Through the initiative we provide advice about what to look out for, who to speak to concerning medical issues and give people opportunities to look at ways of improving diet and exercise ideas. The programme has been a success with initiatives to help employees consider their lifestyle choices changing each month. The programme has been recognised through the bronze award from the Scottish Health at Work programme.

FORESTRY TRAINING SERVICES (FTS)

FTS Review

As part of the Business Improvement Programme (BIP) FTS has been undergoing significant organisational change resulting in:

- 🌲 Forestry Training Services and the Change Support team have been amalgamated to form 'Learning and Development';
- 🌲 All course administration has been centralised in Silvan House. They will be

joined by our Human Resource trainers and Business Development Manager.

Reduction in staff has been achieved through local relocation and retirement;

- 🌲 The Management Training Centre, Ae will close in July 2006 with remaining training staff consolidated in the Forest Operations Training Centre, Ae with one dedicated administrator for Forest Machine Operators Certification Scheme, NPTC, NVQ/SVQ schemes and Modern Apprenticeships;

- 🌲 Management Trainers and our Business Development Manager will be based in Silvan House; and

- 🌲 Two new trainers with fresh experience have been drawn from the Forestry Commission to replace those who have moved on.

Modern Apprenticeships

There is a core of ten apprentices based in Scotland and the South of England. This number looks likely to increase given the rise in the 'expressions of interest' from Forestry Commission Managers elsewhere in GB eager to find out more and become involved in the Modern Apprentice scheme. A recent recruitment exercise in Inverness attracted 61 applications for two Modern Apprenticeship posts.

Tailoring training specifically to customer needs

FTS continue to work with their customers to ensure staff receive the training they need, where and when they need it often catering for specific, local needs. The greater use of Associate Trainers from the private sector and

from inside the Forestry Commission will supplement those courses already run by FTS.

SAFETY, HEALTH AND THE ENVIRONMENT Policy

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

Programmes

During the year the Safety, Health & Environment team carried out a Health and Safety Recreation Audit in half of the Management Units in Scotland, England and Wales. This completed the round started last year.

Next year we plan to carry out support visits to help staff in the management of pesticides in the forest.

Accidents

The following figures set out the incidence of reportable accidents (those causing incapacity for more than three days) for all staff in 2005-06 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 forest operations and in other parts of the Forestry Commission's undertaking.

Year	No of accidents per 100 employees
2005-06	0.93
2004-05	0.94
2003-04	0.93
2002-03	1.01
2001-02	1.10

The Forestry Commission in England

Introduction by Paul Hill-Tout, Director England

This year has seen a number of significant developments in both the role and work of the Forestry Commission in England. These include our role as a Government department; progress with our core programmes; development of our delivery mechanisms and ensuring that we are effectively organised to support and play our part in the forestry landscape.

At the start of the year we concluded a new Concordat² with Defra. This takes forward our part in the Government's Modernising Rural Delivery Agenda and Rural Strategy. Defra is now responsible for strategic forestry policy and the Forestry Commission in England now acts both as an expert advisor to Government on forestry matters and Government's primary delivery body of forestry policy. This new relationship is underpinned by the Natural Environment and Rural Communities Act which paved the way for the establishment of Natural England and the Commission for Rural Communities. We are looking forward to working with these two new bodies to play our part in delivering the vision of the Rural Strategy and forestry policy's part in this.

Our work is guided by the England Forestry Strategy which was published in 1998 and our achievements are reported in the following pages. As the commentary below shows, forestry continues to play its part in supporting a very broad policy canvas with notable progress in land regeneration, health and well being, conservation and protection of the environment. These policies are the

responsibility of a number of Government departments in addition to Defra, including the Department for Communities and Local Government, the Department for Health and the Department for Culture, Media and Sport. The breadth of opportunities available for forestry means that the time is right for Defra, with our expert support, to reassess priorities and capture them in a refreshed England Forestry Strategy.

Although our work is directed by a wide policy agenda that is focused on the delivery of public benefits, these benefits require sound forestry practices to ensure the effective stewardship of existing woodlands and the creation of new woodlands that bring tangible benefits for society. We have therefore worked very closely during the year with the forestry sector. Implementation of the Sustaining England's Woodlands Review and our collaborative work with the England Forest Industries Partnership, which are reported below, are two visible signs of this.

A major focus for us this year has been with the development of the new English Woodland Grant Scheme. This was opened in two phases and we supported the openings with an unprecedented number of seminars and workshops for woodland owners, agents and other stakeholders. The Scheme now provides a range of grants, tailored to meet the needs of the Regional Forestry Frameworks, all within a national framework. For the first time, we published regional grant prospectuses in order to ensure greater transparency for potential

2. <http://www.defra.gov.uk/wildlife-countryside/rdteam/pdf/concordat-forestry.pdf>

The Forestry Commission in England

Introduction by Paul Hill-Tout, Director England

applicants. Our objectives for the Scheme include maximising public benefits in an environment where the potential demands for our grants exceed the available supply of resources. By the end of the year the initial signs are that demand for our grants remains high.

In the second half of the year we reviewed our organisational structures to ensure that they continue to be deployed effectively. To enhance our expert role we regrouped a number of our staff previously working on Forestry Authority and Forest Enterprise functions into a single, multidisciplinary national Programme Group. We have also taken the opportunity to strengthen our

Communications and Finance teams. Taken together, these changes will enable us to support Defra and other Government departments and ensure that opportunities for forestry to play a prominent role in the delivery of the Government's policies are maximised.

Paul Hill-Tout



We have been working closely with Defra on the 'Modernising Rural Delivery' Programme to implement the recommendations of the Rural Strategy. The main areas of work have been:

Legislation – contributing to the Natural Environment and Rural Communities Bill³ (NERC) which received Royal Assent on 30 March 2006. The Act will, amongst other things, establish Natural England and support more flexible delivery arrangements (by allowing the delegation of functions between delivery bodies, including the Forestry Commission);

Rural Funding – preparation to rationalise the large number of separate rural funding streams to a framework around three major funds. The Forestry Commission's English Woodland Grant Scheme (EWGS) would be part of one of these funds. Implementation of the first phase will be completed by January 2007 when new funding arrangements under the new Rural Development Regulation⁴ are put in place; and

Natural England – preparation for close collaborative working between the Forestry Commission in England and Natural England. Collaborative working will be achieved by building on our current interactions with the organisations that will form Natural England. Areas for closer collaboration that we are considering include the alignment of delivery functions (and in the first instance grants and licensing functions), seeking integrated approaches to land management, the establishment of 'first stop shops', and sharing offices and specialist staff. In September the

Forestry Commission signed a Memorandum of Understanding⁵ with the Natural England partners and the Environment Agency to support alignment with these agencies. The appointment of Natural England's Chief Executive Designate in February and the passing of the NERC Act will provide the foundations for closer collaborative working before and after Natural England's formal establishment in October 2006.

ANCIENT AND NATIVE WOODLAND POLICY LAUNCH 'KEEPERS OF TIME'

Forestry Minister Jim Knight MP and the Forestry Commission's Chairman, Lord Clark, launched 'Keepers of Time: a statement of policy for England's ancient and native woodland'⁶ at a press conference in Haslemere on 29 June. The new policy represents a substantial shift in emphasis for forestry in England, placing ancient and native woodland at the heart of forestry policy.

The delivery of the new policy includes a programme to encourage the restoration of ancient native woodlands converted to plantations in the last century. This will see conifers and other non-native tree species gradually removed from the English landscape over the next 20 years or so, to be replaced with native species, such as oak, ash and beech, which will be allowed to naturally seed and regenerate.

The policy aims to reverse the decline of England's ancient and native woodland and improve its value for wildlife. Threats such as shading from planted conifers, overgrazing by

3. NERC Bill <http://www.defra.gov.uk/rural/ruraldelivery/bill/>

4. Our work with the European Union <http://www.forestry.gov.uk/forestry/INFD-6DFKLV>

5. <http://www.forestry.gov.uk/forestry/INFD-6H2HYB>

6. The full policy document can be viewed on the Forestry Commission website at: www.forestry.gov.uk/keepersoftime.

deer and livestock, competition from non-native species, pollution from agriculture, the effects of climate change, loss to development, poor management and neglect will be addressed as a matter of priority and urgency.

England has a total area of woodland of 1.1 million hectares, of which ancient woodland covers 340,000 hectares (30 per cent). Of this, 140,000 hectares was converted to plantations during the twentieth century. The Forestry Commission, which has 53,000 hectares of ancient woodland on its estate, intends to lead the way in implementing the new policy.

GREY SQUIRREL POLICY

Forestry Minister Jim Knight MP announced a new policy and action plan on grey squirrels⁷ in a statement to the House of Commons on 20 January. The plan outlines Forestry Commission support for humane control of grey squirrels in England's woodlands focusing resources on where they are causing the greatest threat to sustainable management and associated public benefits, including priority red squirrel populations.

ENGLISH WOODLAND GRANT SCHEME

After two years of development the English Woodland Grant Scheme (EWGS)⁸ was introduced in two phases in July and November 2005. This was the first significant change to forestry grant schemes in England since the introduction of the Woodland Grant Scheme

(WGS) in 1988. EWGS is a practical expression of the devolution of forestry matters and will allow the Forestry Commission to better respond to the regional agendas in England. EWGS also incorporates annual payments to compensate for agricultural income foregone when trees are planted on farmland, this replaces the previous Farm Woodland Premium Scheme operated by Defra.

FORMATION OF THE NATIONAL PROGRAMME GROUP

The National Programme Group was formed in September 2005 as a key part of our response to Modernising Rural Delivery and brought together the Forestry Commission's policy support capability and expert advisers in landscape, ecology and heritage. The group is responsible for:

- 🌲 advising Government on forestry policy;
- 🌲 formulating delivery plans for the Forestry Authority and Forest Enterprise;
- 🌲 providing expert advice to the delivery bodies; and
- 🌲 leading on key policy areas, including the revision of the England Forestry Strategy, England Rural Development Programme (ERDP), and the Government's response to the Biomass Task Force.

7. The policy and action document can be viewed on the Forestry Commission website at: www.forestry.gov.uk/forestry/INFD-6L4D37

8. EWGS <http://www.forestry.gov.uk/forestry/INFD-6DCCEEN>

Sustaining England's Woodlands

We are continuing to deliver on actions and commitments identified in the Steering Group's response to the Sustaining England's Woodlands⁹ Review (2002) and those in the report, published in March 2006¹⁰:

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

GRANT AID

The England Rural Development Programme (ERDP) sets out the Government's support for agriculture, forestry and the rural economy over the period 2000-06. The English Woodland Grant Scheme (EWGS) operated by the Forestry Commission replaced the Woodland Grant Scheme (WGS) and Farm Woodland Premium Scheme (FWPS) during 2005. These are part of the ERDP, which provides incentives for people to create new woodlands and plan, manage and improve existing woods. Tables 1, 2, and 3 show the areas of woodland on which establishment or management grants were paid in 2004-05. Tables 2 and 3 also show trends over recent years. Overall grants totalling £17.3 million were paid out in 2005-06, 40 per cent going

to new planting and 60 per cent to support the management of existing woodland. £1 million of the total were paid as 'transitional' grants to ease the change from WGS which closed in June 2004 and the opening of EWGS in July 2005.

TRANSFER OF THE WOODLAND GRANT SCHEME TO THE ENGLISH WOODLAND GRANT SCHEME

As mentioned above, EWGS was opened for business in July 2005. A series of eleven regional seminars in June preceded the opening and were attended by around 800 applicants and stakeholders.

To coincide with the seminars we published, for the first time, prospectuses for the seminars detailing the amount of grant available both nationally and in each of the regions. The introduction of prospectuses signalled a general move to a position where grants are 'offered' in one financial year and the resultant contracts have a first payment in the following financial year.

The first five grants launched included Woodland Creation Grant thereby ensuring that there was sufficient time to receive and process applications in time for the 2005-06 planting season. The woodland creation scoring round closed at the end of September and was oversubscribed by about 20 per cent of the value of the funds available. The level of demand for the grants was encouraging given the uncertainties in both the agricultural and forestry sectors arising from the introduction of new grant and support schemes. Other grants

9. <http://www.forestry.gov.uk/england-sew>

10. Sustaining England's Woodlands Review [http://www.forestry.gov.uk/pdf/sustainreviewpart1and2.pdf/\\$FILE/sustainreviewpart1and2.pdf](http://www.forestry.gov.uk/pdf/sustainreviewpart1and2.pdf/$FILE/sustainreviewpart1and2.pdf)

opened in July were Woodland Planning Grant, Assessment Grant, Regeneration Grant and Farm Woodland Payments.

During the public consultation on our EWGS proposals 52 per cent of responses supported the purpose, operation and payment aspects of the proposed Woodland Management Grant (WMG). In May 2005 we sought further advice on our detailed proposals from our Applicants' Focus Group and from a broader cross-section of stakeholders in all regions. These informed our decisions for introducing WMG and Woodland Improvement Grant in November 2005.

A new computer system, Grants and Licences Online Services (GLOS), was introduced in stages to provide electronic administrative support for the new grant scheme. By the end of March around 1,600 applications had been received representing about 80 per cent of the funds available for payment of EWGS grants in 2006-07.

The final two grants Woodland Management (WMG) and Woodland Improvement (WIG) were launched in November. A further series of regional applicant seminars were attended by nearly 1,000 people. Initial interest has been strong in certain regional WIG funds.

WOODLAND HARVESTING, PROCESSING AND MARKETING GRANT

A Woodland Harvesting, Processing and Marketing Grant was piloted in three regions. Thirteen applications were received, five were approved with a further one being successful after appeal. It is hoped the experience of the pilot, including a second round of applications in early 2006-07, can be used to help make the

case for a similar scheme to be mainstreamed under the Rural Development Programme for England (RDPE) 2007-2013.

FARM WOODLAND AND FARM WOODLAND PREMIUM SCHEMES LEGACY TRANSFER PROJECT

Following agreement with Defra and the approval of an outline business case in 2004 a project was formally initiated with Defra funding to transfer the legacy Farm Woodland Schemes and Farm Woodland Premium Schemes from the Rural Development Service (RDS) to the Forestry Commission. The aim is to bring the administration of all the main woodland schemes under management by a single Government body. A Project Board comprising representatives from RDS, Rural Payments Agency, Defra Forestry Policy Unit and the Forestry Commission was set up, chaired by the Forestry Commission. The project's original timescale of completing the transfer of data by April 2006 was re-scheduled as it became clear that various external factors impinging on the project would pose a significant risk to the 2006 payments should the transfer be attempted prior to October. Work is now proceeding on the basis of the transfer taking place early in 2007, with RDS continuing to administer the schemes during 2006 to ensure a successful payment round.

Major preparatory work includes alignment of the schemes to Defra's Rural Land Register and development of GLOS to incorporate the schemes. Significant efficiencies and benefits should be realised with the schemes administered through GLOS in due course and close linkage achieved with the new Farm Woodland

Sustaining England's Woodlands

Payment of EWGS, all part of an improved service to customers under the Modernising Rural Delivery change programme.

FELLING REGULATIONS

We continue to exercise strict controls on felling and issued 1,680 felling licences that were not linked to WGS or EWGS plans, compared with 1,438 last year. These licences covered 1,066,085 cubic metres; 51 per cent of which related to unconditional thinning and clear-felling operations. We also approved 254 WGS plans during the year. Licences for thinning and felling operations on 3,350 hectares of woodland were granted in 191 of these approvals. These include 310 hectares of clear felling, 54 hectares of selective felling and 93 hectares of coppicing. No felling licences were issued under the new EWGS in 2005/06.

We received 178 reports of illegal felling from the public and, after checking our record of approved felling, we investigated 36 in more detail. This year we sought 17 prosecutions and have 22 cases still to be resolved. In 15 less serious cases, we issued formal warnings to those involved. During the year 14 restocking notices were served following successful prosecutions.

The Regulatory Reform (Forestry) Order 2006 which came into force in March and affects England and Wales only. The Order provides us with a new power to issue Restocking Notices following unauthorised felling without first having to secure a conviction. This will, in appropriate cases, simplify

matters by avoiding the burden of court proceedings in order to secure restocking.

Our Conservators continued to receive Forest Design Plans from Forest Enterprise which include proposed thinning and 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 235,920 hectares, around 91 per cent of the Public Forest Estate in England.

ENVIRONMENTAL IMPACT ASSESSMENTS

During the year, we received two Environmental Statements under the Environmental Impact Assessment (Forestry) Regulations¹¹ that had been requested in previous years. Both were for deforestation. One attracted over 700 comments during public consultation and was only approved after discussions with the applicant, English Nature and community representatives and with 18 conditions. The second was refused on grounds of unacceptable impact on fauna and water quality. This was the first refusal of a Forestry Environmental Statement (ES) in England. We requested one further Environmental Statement for an afforestation project and this was undergoing consultation at the year-end. A further notable case was brought to our attention during the year and is thought to be the first example of a development that has been granted planning permission, subsequently needing to be considered under EIA (Forestry) regulations. As a result of this case it is expected that Department of Communities and Local

11. The Environmental Impact Assessment (Forestry) (England and Wales) Regulations 1999, SI No.2228 1999. The Stationary Office, London

Government (DCLG) will improve their guidance to Local Planning Authorities in order to reduce the chances of this occurring in the future.

FOREST ENTERPRISE ENGLAND

Forest Enterprise England, an executive agency of the Forestry Commission, manages the public forest estate. Its activities are noted in the programmes of the England Forestry Strategy to which they apply. It has also been set key performance targets and achievement against these is presented in Table 4.

All key performance indicators have been met or exceeded except the targets for the unit cost of timber production – target £13.55; achievement £13.56. This was due to an increase in fuel prices.

ENGLAND FORESTRY STRATEGY REVISION

Responsibility for the England Forestry Strategy (EFS) and support for the England Forestry Forum (EFF) transferred to Defra as part of the wider move of policy responsibilities. The Forum met in November¹² to discuss the evidence base which is contributing to the EFS¹³ revision. The meeting considered a number of topic papers prepared by the Defra Forestry Policy Unit, supported by the Forestry Commission, looking at areas including climate change, land management at the landscape scale, community engagement, forestry industry, natural resource protection, and urban greenspace. The evidence base and EFF discussion will form the basis of the consultation document which is expected to be published by May 2006. It is planned to

support the revised strategy with an Action Plan that the Forestry Commission and Natural England will prepare. This will set out priorities and plans for delivering the strategy. The revised strategy provides an opportunity for raising the profile of woodlands and forestry and engage stakeholders in considering the future direction of forestry policy.

REGIONAL FORESTRY FRAMEWORKS¹⁴

During the year Yorkshire and The Humber, South West, East Midlands and North West regions have published a Regional Forestry Framework (RFF) document so that all English regions now have a published RFF. In each case this represents the first regional strategic expression of the EFS. These regional strategies will all eventually include detailed action plans that the main regional bodies have agreed in terms of initial priorities for delivery.

We also commissioned independent consultants, LTS International Ltd, to analyse and report on all nine RFF publications to assist in planning the Forestry Commission's next steps involvement in the delivery phase of implementing the RFF action plans.

The RFF analysis found that:

- 📌 the RFFs are all very different and cross-regional comparison is complex. Monitoring, evaluation and evidence of target benefits will prove challenging;
- 📌 RFFs tend to currently focus on advocacy actions;

12. <http://www.defra.gov.uk/wildlife-countryside/rddteam/forum/051124/index.htm>

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

14. Forestry Commission has provided web-based access to all RFF publications and supporting information at: <http://www.forestry.gov.uk/england-rff>

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🌲 there are four principal methods of funding delivery actions, with the Forestry Commission estate delivery dominating so far. An absence of secured, longer-term funding is a major risk;

🌲 there is a very high commitment to RFF governance to guide delivery; and

🌲 the increasingly complex landscape of regional strategies and policies raises significant co-ordination and support issues.

The Forestry Commission is continuing to play a central role in facilitating the RFF priority actions in each region, including supporting RFF co-ordinator and delivery manager roles, and secretariat support for RFF Steering Groups. In its operation of the English Woodland Grant Scheme the Forestry Commission is aiming to increasingly use the RFF priorities to help inform its targeting of grant support. RFF priorities are also being reflected in regional planning documents, demonstrating the value of preparing such regional forestry strategies.

ENGLAND BIODIVERSITY STRATEGY

The England Biodiversity Strategy¹⁵, published by Defra in 2002, is being updated with publication likely in 2006. It is not expected that this will involve wholesale revision, but more on updating of work programmes to reflect programmes already achieved. As part of this we are looking at four key deliverables of relevance to the Forestry Commission:

🌲 full delivery of the Policy for Ancient & Native Woodland (Keepers of Time) 2005-2007 Action Plan by all relevant players, and publication of a follow-on 2008-10 Action Plan to sustain this delivery;

🌲 implementation of policy on the restoration of open habitats from forestry through a detailed Action Plan by all relevant agencies and stakeholders, to include a 'restoration strategy' for the public forest estate;

🌲 incorporation and integration of principles of ecosystem and landscape scale approaches into all relevant policies, practices, delivery mechanisms and action on the ground for the enhancement and adaptability of woodland biodiversity and other semi-natural habitats; and

🌲 delivery of a programme of action, which exemplifies best practice management for woodlands and forests on all publicly owned land.

CLIMATE CHANGE

Climate change is increasingly influencing forestry policy development and delivery. In contrast to the original EFS, climate change will figure significantly in the EFS consultation document; is embedded in the England Biodiversity Strategy and the Water Framework Directive¹⁶ and is the principal driver in the development of an England Woodfuel Strategy. All RFFs consider climate change, with distinct regional policies and actions expressing both adaptive responses

15. Working with the Grain of Nature: a biodiversity strategy for England
<http://www.defra.gov.uk/wildlife-countryside/biodiversity/biostrat/index.htm>

16. <http://www.defra.gov.uk/environment/water/wfd/index.htm>

and the contribution that woodlands can play in mitigating the effects of climate change.

Climate Change Programme Review

The update to the UK Climate Change Programme¹⁷ was published by Defra in March. It reports progress on meeting targets set in the original (2000) Programme and identifies further policy measures that will contribute to meeting those targets. There is an important commitment to examine 'the scope and feasibility of a market based mechanism to facilitate trading of greenhouse gas reductions from agriculture, forestry and other land management sectors'. The Climate Change Programme review will shape how the Forestry Commission contributes to reducing greenhouse gas emissions and respond to the threats posed by climate change.

The main forestry-related commitments for England are:

🌲 the Government will continue to develop the woodfuel supply chain, increasing the operationally available resources and focusing on local capabilities through the RFFs;

🌲 the Government will continue to promote the role of wood as a renewable material in sustainable development through schemes such as 'Wood for Good'¹⁸ which transfers knowledge of timber systems to the construction industry;

🌲 the Government will continue to develop adaptation strategies to make woodlands more resilient against the impacts of climate change; and

🌲 the Government will ensure that the current and future reviews of the England Forestry Strategy take full account of the opportunities and risks for forestry from climate change. These include forestry's role in mitigation and its contribution to adaptation strategies to minimise the effects of climate change.

The contribution to carbon savings from an increased utilisation of woodfuel for energy and heat production is identified, primarily from the redirection of material from ongoing operations under existing funding streams. The carbon benefits of further increasing woodfuel utilisation through bringing currently unmanaged woodland into management are also quantified. The contribution that increased woodland creation could make is also described, noting that planting now would bring only small savings by 2010 with most accruing beyond 2020.

17. <http://www.defra.gov.uk/environment/climatechange/uk/ukccp/index.htm>

18. <http://www.woodforgood.com/>

England 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 existing woodlands and newly created woodland can be managed to deliver enhanced benefits to local economies. The potential role of biomass for energy generation, including the use of wood, continues to increase in importance. Our performance against the Spending Review 2002 Service Delivery Agreement targets is shown in Table 5.

Key achievements during the year are described below:

ENGLAND FOREST INDUSTRIES PARTNERSHIP

The England Forest Industries Partnership (EFIP) is a partnership between Government and private industry and aims to strengthen the competitiveness of the forest sector in England and increase the sector's contribution to sustainable development of the economy, environment and local communities.

In January EFIP facilitated a joint timber industry stand at the ODPM Sustainable Communities Summit. Represented on the stand was Wood for Good, British Woodworking Federation, the sector's Naturally Wood Strategy, the Woodland Initiatives Network, the Timber Research and Development Association, and the UK Timber Frame Association. The exercise was very

successful with good feed back from visitors to the summit. EFIP is also taking forward work on e-business in the South West Region and working on a sustainable procurement database with our Conservancies and woodland initiatives.

The Forestry Commission has commissioned Jaakko Pöyry to map the woodlands and forest industries sector in England. This is giving us a good understanding of the total industry supply chain in England, and where there may be opportunities for the sector and Government to work together to improve the competitiveness and sustainability of the sector. The mapping exercise will also look at the connectivity between traditional forest management, the timber supply chain, tourism and recreation businesses and the delivery of public benefits from our woodlands in England. This work will form the basis of the EFIP action plan, inform the review of the England Forestry Strategy, the development of the Rural Development Programme for England 2007-2013 and the action plans emerging from the RFFs.

WOODFUEL AND BIO-ENERGY

There is intense activity on biomass for energy at present. The Forestry Commission is supporting Defra in the preparation of the Government's response to the report of the Ben Gill Biomass Task Force¹⁹ published in October 2005, taking particular responsibility for the area of supply chain. The challenge set for the task force was 'to make proposals to optimise the contribution of biomass to a range of targets and policies set by the

19. <http://www.defra.gov.uk/farm/acu/energy/biomass-taskforce/>

Government'. The key recommendation for the Forestry Commission is number 30. 'As a first step the Forestry Commission should urgently undertake and publish a full assessment of, and set out a strategic plan for, the development and use of short rotation forestry, forestry waste, farm and other woodlands, local authority trees and commercial forestry. This should be delivered by September 2006.'

Although the Government response to the report is not expected until April 2006, the Forestry Commission has already established a new core team in anticipation to take our work on biomass forward. We have also invited representatives from the industry as part of the core team. A key focus for the team is the wood supply chain. We organised a stakeholder meeting²⁰ in March 2006 to seek the initial views of a wide ranging group, including the industry, environmental sector and the regions, on the challenges we will need to address if wood is adopted as an opportunity by Government.

The following examples illustrate the increasing popularity of woodfuels:

Wilton Park Biomass Boiler

Wilton Park is a conference centre in West Sussex owned by the Foreign and Commonwealth Office (FCO) and is considered one of the world's leading centres for the discussion of international issues. The management at the Park is very enthusiastic about the possibility of obtaining a biomass boiler. The FCO have agreed to let the

Forestry Commission use the centre as a case study in the response to Ben Gill Biomass Task Force.

Woodfuel Unit at Rosliston

A wood fuel heating system was installed this year in the National Forest at the Rosliston Forestry Centre, Rosliston, Derbyshire. The partnership project between South Derbyshire District Council, National Forest Company and the Forestry Commission received grant aid from the Clear Skies programme. Established by the Department of Trade and Industry and the Building Research Establishment, Clear Skies provides funding for the delivery of renewable energy developments and helped to support the new heating system at the Visitor Centre complex, including four luxury holiday cabins. The newly established woodland around the site is earmarked for supply of wood chips for the boiler.

TIMBER HARVESTING FROM THE PUBLIC FOREST ESTATE

A total of 1.51 million cubic metres of FSC certified timber was harvested from the public forest estate in England compared with an initial target of 1.47 million cubic metres. Our timber production supports significant employment and economic activity in harvesting, haulage and wood processing businesses throughout the country. A viable and efficient harvesting and marketing sector is essential to undertake and fund the sustainable management of woodlands in pursuit of a wide range of objectives. Of the wood volume sold, 62 per cent was standing

20. [http://www.forestry.gov.uk/pdf/fce-woodfuel-stakeholder-workshop-060326.pdf/\\$FILE/fce-woodfuel-stakeholder-workshop-060326.pdf](http://www.forestry.gov.uk/pdf/fce-woodfuel-stakeholder-workshop-060326.pdf/$FILE/fce-woodfuel-stakeholder-workshop-060326.pdf)

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trees with the balance coming from Forest Enterprise's own harvesting activity. Thinning operations contributed 33 per cent of the volume, demonstrating our continuing commitment to improvement of both timber quality and the landscape and environmental values of the nation's woodlands. Timber harvesting through thinning is now a key part of our programme to restore Ancient Woodlands on the Public Forest Estate. Clearance of the extensive storm damage in the North of England was largely completed during the year with the very clear early focus being given to ensuring public safety and reopening our woodlands for public access.

The timber market was buoyant throughout the year with good levels of demand and a steady increase in unit prices which led to a total dispatched timber value of £18.6 million compared with an initial Business Plan target of £17 million. The major storm damage in Scandinavia did not have a significant impact on the homegrown timber market. These positive factors are tempered, as we move into 2006/07 by the increased energy prices which began to impact the processing sector towards the end of the year. This was a major factor in the announcement of the closure of the St Regis Company's Paper Mill near Chepstow which has been the major consumer of hardwood timber from England's woodlands for many years. The closure impacts on woodland management but also, and most importantly, on the small businesses forming the harvesting and haulage infrastructure. Replacement of this market will be a very significant challenge.

Of the total timber production, over 90,000 cubic metres were of hardwood, made up of both high quality timber for the bespoke building and furniture markets, and from thinning of 2000 hectares of younger woodlands to promote timber quality and improvement of biodiversity values. This was a reduction on previous years and demonstrates the early impact of the closure of the St Regis Mill. Some relief from this impact was achieved through the growth of the firewood market through the winter. Demand from the sawmilling sector for our FSC-certified hardwood remained strong and we had a very successful Hardwood Auction in November that again also included a number of lots of high quality, large dimension softwood timber.

Timber processors continue to commit to significant investment proposals. These include sawmillers, panelboard producers and the energy sector. We have seen major investment in the three sawmills in East Anglia and the rebuilding of the fire-damaged sawmill in the South of England. The announcement of the investment programme by Egger in their chipboard line at Hexham is a very welcome boost for the sector in the North of England. We have agreed a major contract to supply 50,000 tonnes per year of timber to the new wood-fired power station development at Teesside. Our commitment to the market and our long-term contract arrangements are an important element in bringing these investments to fruition. However, as processing capacity increases, the supply commitment from the private sector will be an increasingly critical factor as the public estate now has a stable production forecast.

UK WOODLAND ASSURANCE STANDARD – ENGLAND COMPLIANCE

Certification of the Public Forest Estate against the UK Woodland Assurance Standard was maintained. The annual independent surveillance audit was completed at West Midlands and North West England Forest Districts. Our timber and venison will continue to carry the Forest Stewardship Council (FSC) logo which confirms that the exacting requirements both of UKWAS and the FSC are being met.

WOODLAND INITIATIVES

The Woodland Initiatives Network has been helping groups around the country communicate and share best practice for the past three years. The Network is supported by the Small Woods Association and funded by the Countryside Agency and ourselves and the work of the Network's members has been shared widely through the production of a newsletter and facilitation of a Learning Network. An internet-based register of Initiatives and projects detailing their diverse areas of work, has also been completed. The achievements of the Initiatives who make up the Network can be highlighted in a number of areas including economic such as increasing the demand for local timber; revitalising the coppice sector; providing training and business advice; encouraging the community to become involved with their woodlands for recreation and health. Wood fuel projects run by a number of the Initiatives have been highlighted to the Biomass Task Force. An evaluation of the Networks [undertaken on behalf of the Countryside Agency and ourselves in November] concluded that it was highly valued. Agreement has been reached, in principle, to continue funding the Network for a further three years.

ENGLAND RURAL DEVELOPMENT PROGRAMME 2000-06

The England Rural Development Programme (ERDP) 2000-06 contributes to a number of Government objectives, including the Strategy for Sustainable Farming and Food and Rural Strategy 2004. It is the framework for delivering European funding for a wide diversity of schemes, including those for agri-environment, woodlands, rural enterprise and less favoured areas. It is the source of co-financing for the Forestry Commission's grant schemes, but since state-funded forestry organisations cannot be beneficiaries there is no direct relevance to Forest Enterprise. The ERDP ends in December 2006 and Defra is currently leading the production of the successor Programme.

SUCCESSOR ENGLAND RURAL DEVELOPMENT PROGRAMME 2007-13

A new Rural Development Regulation was agreed by the European Union in July 2005, and from January 2007 this will underpin all Forestry Commission grant support. Forestry features much more widely than in the previous Regulation, and there are new opportunities to secure funding for micro-enterprises, training and heritage. The Forestry Commission represents woodland interests on Defra's Policy Advisory Group and is contributing to the drafting of the next regulation programme, the Rural Development Programme for England (RDPE).

The priorities for forestry and woodland were set out in Defra's consultation document on the next Rural Development Strategy for England which was published in February 2006, and structured around three themes:

England Forestry for Rural Development

- 🌲 enhancing the environment and countryside;
- 🌲 making agriculture and forestry more competitive and sustainable; and
- 🌲 enhancing opportunities in rural areas for the disadvantaged.

The final Strategy and the more detailed Rural Development Programme for England will be submitted to the European Commission during 2006, and, once approved, will come into effect in January 2007. The England Woodland Grant Scheme will be part of 'Axis 2', which covers improvement of the environment and the

countryside, and delivery will be led by Natural England and the Forestry Commission. This is closely allied to the Government's commitment to create a single Environmental Land Management Fund and to develop closer alignment of the Forestry Commission with Natural England. Delivery of the funds under the other axes relating to the rural economy and quality of life, will be led by the Rural Development Agencies, working in partnership with Natural England and the Forestry Commission.

England 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 encourage inward investment. In taking this forward we continue to work with the Office of the Deputy Prime Minister (ODPM), as well as Defra. Our performance against the Spending Review 2002 Service Delivery Agreement targets is shown in Table 5. Key achievements during the year are described below.

NEWLANDS

Developed by the North West Development Agency and the Forestry Commission, Newlands is a unique £23 million scheme that will reclaim large areas of derelict, underused and neglected land across England's North West, home to a quarter of England's derelict land, and transform them into thriving, durable, community woodlands. The Newlands scheme will bring a new lease of life to the North West's urban areas and, through a combination of environmental improvement, derelict land reclamation will develop new opportunities for leisure and recreation. The scheme will also bring about huge physical change to a region, not least the creation of 435 hectares of new woodland.

The first two Newlands sites, at Moston Vale in East Manchester and Bidston at Ellesmere Port, have now received approval from the North West Development Agency. The Development Agency have confirmed their allocation of funding for 2006/07 at £2 million.

Moston Vale

Site works have progressed rapidly and have benefited greatly from the very dry January. Soil importation is complete on the main part of the site and footpaths are being surfaced. Tree planting and wildflower seeding is imminent. Development work is on target for completion by the spring.

Bidston Moss

We have signed a 99 year lease with the Mersey Waste Disposal Authority. Access works and complete cultivation ready for tree planting has started and site works are due for completion by the spring. This is the Forestry Commission's first 'pie crust' lease which is a legal mechanism that enables us to reduce our liabilities on potentially contaminated brownfield sites by only leasing land to the depth required for tree growth. Below this depth the liability remains the responsibility of the lessor.

The Landfill Tax Credit distributor, Biffaward, has agreed to award a grant of nearly £460,000 to the Newlands Merseybelt scheme. This will significantly support and enhance the impact and outcomes on Newlands sites. It adds to the matched funding 'pool' that this scheme has attracted, now over £1 million to date, for the Forestry Commission to use in conjunction with the NWDA grant which has provided the main source of funding for the scheme.

SOUTHERN GROWTH AREAS

In addition to our more traditional role in supporting wider regeneration initiatives we have also been able to identify a key role in supporting the Government's housing growth objectives. New and existing woodland is

England Forestry for Economic Regeneration

being recognised as having an important role to play in the provision of high quality green-infrastructure.

As a consequence, we have been working to strengthen the strategic context for our engagement in supporting the role for woodland as part of growth and development proposals through the planning process.

In the short term the aim is to develop:

- 🌲 a revisable schedule of key opportunities where the Forestry Commission can influence local planning decisions on green infrastructure within the specified area up to the end of 2008; and
- 🌲 a planning 'tool kit' for Forestry Commission staff to engage and negotiate effectively with local planning authorities, landowners and developers about the identified opportunities. This is a new and innovative area of engagement for us and we are looking to see how the benefits can be applied more widely across the Forestry Commission.

The Forestry Commission was successful in helping to attract Ministerial support and £2.7 million of ODPM funding to Marston Vale Community Forest. This has enabled a total project spend of around £7 million and is leading to the creation of over 170 hectares of new publicly accessible green space South of Bedford.

SALCEY TREE TOP WAY

Over the last couple of years nearly £1 million worth of ODPM funding has been awarded to the Forestry Commission for further recreation infrastructure projects in Salcey Forest,

Northamptonshire to support the River Nene Regional Park. The River Nene Regional Park is a large-scale project to provide and enhance 'green-infrastructure' in the Northamptonshire part of the Milton Keynes – South Midlands Growth Area. Green-infrastructure provision is recognised as a key deliverable to support the ODPM's Sustainable Communities Plan.

The most recent piece of funding facilitated The Tree Top Way which was opened to the public over the Christmas holiday and, despite indifferent weather, attracted around 1,000 visitors on its first day. Designed and built by our Forestry Civil Engineering Business Unit, the structure, which uses green oak as well as the radio mast bridge technologies developed by Forestry Civil Engineering, rises to 20 metres above the ancient woodland floor. Elsewhere within the park, the Forestry Commission is working in partnership with the County Council and other agencies to prepare strategic green-infrastructure plans.

THAMES GATEWAY

At the end of March 2005 the Deputy Prime Minister announced that £5.8 million would be available to purchase and develop Jeskyns Farm, 147 hectares of arable land in north Kent. Situated within the Thames Gateway Growth Area, Jeskyns Farm was identified by the Forestry Commission as a suitable tract of land on which to develop a community woodland. It is a key component of the Government's programme for green space in Thames Gateway. The site is now under the management of Forest Enterprise and a consultation process and Environmental Impact Assessment is underway.

At an operational level, over £6 million has been allocated to the Forestry Commission by ODPM within the Thames Gateway. This includes £1 million awarded to improve the recreational infrastructure and community engagement process on a former landfill site in the Ingrebourne Valley.

THE SOUTH YORKSHIRE AND EAST MIDLAND'S COALFIELDS

The Land Regeneration Trust (LRT), which was established as a pilot project, is a partnership between English Partnerships, Groundwork, the Environment Agency and the Forestry Commission and acts a trustee for derelict, under-used and neglected land. It works through local organisations and partnerships to restore and create new 'green amenities' for the benefit of local people. The Trust is now two thirds of the way through its pilot phase (scheduled to be completed in April 2007).

The first three sites in South Yorkshire were transferred over to the Trust following their restoration to community woodland. These sites will be managed by the Forestry Commission on behalf of the Trust, the costs of which will be paid out of dowries provided by English Partnerships. A further three sites will be transferred over the next year giving a total in excess of 500 hectares that has been restored for the public to use and enjoy. These sites will be managed in partnership with other organisations such as Groundwork, which will help to maximise delivery of uses that these sites are capable of.

COMMUNITY FORESTS

The Forestry Commission has been a national partner in the development and delivery of England's Community Forests since their

inception in the late 1980s. Government provided core funding for the programme up to 2005, following which Community Forests were expected to move towards a more regional and local support base, reflecting the benefits they provide to local communities. To facilitate this adjustment, Government agreed an extra two years' transition funding to March 2007.

Each Community Forest has prepared a Succession Planning Framework, within the context of agreed national guidance, to identify the actions necessary to establish a stable and secure future. These Frameworks provide a basis for the allocation and management of transition funding through Forestry Commission Conservancy-based grant agreements.

To mark the end of their pilot phase, The Countryside Agency commissioned an external evaluation of England's Community Forests. This concluded that the programme had performed well against its original environmental, social and economic objectives, represented good value for money and had significant potential for further delivery against a range of Government objectives and targets. Government has indicated its wish to see the lessons from England's Community Forests disseminated and applied more widely across other community, regeneration and environmental programmes.

As part of transition, lead responsibility in Government for community forestry and the twelve Community Forests was vested in the Forestry Commission. Regional Forestry Frameworks will guide any future Government support for the twelve Community Forests.

England 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. The benefit of woodlands and woodland recreation to health and well-being is now being more widely recognised. Our performance against the Spending Review 2002 Service Delivery Agreement targets is shown in Table 5. Key achievements during the year are described below.

DEDICATION OF FORESTRY COMMISSION FREEHOLD LAND FOR ACCESS

The Forestry Commission has completed the first phase of dedication of its estate in England for permanent public open access, allowing future generations to enjoy the healthy environment of its woodlands and forests²¹. Over 140,000 hectares now have permanent access rights. A further 20,000 hectares will be dedicated as existing third party rights, such as sporting leases, come to an end.

In our statutory role as the Relevant Authority for Dedicated Woodlands, trained caseworkers in each Conservancy are processing applications for restrictions and exclusions of access made by Forest District staff. Applications are routed via the Countryside Agency's Open Access Call Centre in Belfast. We have entered into a five-year contract to participate in this system.

Until all of the Forestry Commission's dedicated woodlands become subject to live access rights, it is difficult to predict final volumes of casework arising from the need to restrict or exclude access. However, initial impressions are that casework levels may be lower than had originally been anticipated.

HAMSTERLEY FOREST

This project aims to make Hamsterley Forest in County Durham one of England's premier mountain biking venues and aims to attract mountain bike enthusiasts of all abilities. Teesdale Marketing, a non-profit company which aims to promote and encourage economic prosperity in the area, is currently undertaking an economic impact study to assess the extent to which the local economy, notably in the tourism and leisure sector, will benefit from the increased number of visitors.

A recently commissioned tourism survey showed that there is potential for the development of visitor facilities and attractions without diminishing the forest's existing special qualities. Forest staff have plans for further improvements to the mountain bike network and to eventually build a new visitor centre to complement it. However, this scheme will be costly and, until a time when sufficient funds are available, the efforts of the Forestry Commission and its partners will be concentrated on developing the bike route network.

A parallel project to provide better facilities for horse riders is currently underway.

21. <http://www.forestry.gov.uk/forestry/INFD-69PJGH/>

England Forestry for Recreation, Access and Tourism

NATURALLY ACTIVE WEBSITE

The website – www.naturallyactive.org – is an interactive resource to enhance recreational activities in rural areas with two main areas of interest: Woodland Commercial Recreation and Rural Sport and Recreation. The site also directly gives information on useful contacts and other resources. This website will help woodland owners and managers looking to diversify their business and provide them with advice, guidance and ideas on activities that might suit their woodland.

The website was launched in January at our High Lodge Visitor Centre, in Thetford Forest Park, Norfolk. The event was hosted by the sponsoring partners including the East of England Development Agency, the East of England Tourist Board, Sport England East and ourselves. The speakers at the launch were joined by paralympic runner, Danny Crates, who led school children in a demonstration of some novel activities that could take place in rural areas, including Frisbee golf and llama trekking.

NATURAL BENEFITS

The Countryside Agency, English Nature, the Rural Development Service, in partnership with the Institute for Health and Clinical Excellence and ourselves, have produced 'Natural Benefits in the East of England'. Natural Benefits shows how the work of the countryside sector across the East of England can contribute towards the Government's targets for health. It combines evidence on what works to improve health, with many

examples of how this can be delivered through practical projects, many of which also address wider countryside objectives.

ACTIVE WOODS

The plans for Active Woods 2006 are well underway. This year, many more healthy living events will be run across the country and will build on activities such as Tai Chi in the Woods and Follow the Dog, which made 2005 so successful. The campaign aims to get people more aware of the opportunities afforded to them locally to live a healthier life and so media coverage is targeted at local press.

'Nature's Health Service'²² is a report produced by Forest Research, it pulls together all the outcomes and evaluations from the health demonstration projects that have been developed over the last couple of years and is a useful précis of our relevance and contribution to the health agenda.

A leaflet has been produced by Forest Research which promotes a number of our Active Woods publications pulling together the demonstration projects and their evaluations. This leaflet was placed in delegate packs for the UK Public Health Association conference in Telford and the SportEX Major Moves in Physical Activity Promotion conference in Birmingham.

A celebration of the first year's work of the Pilot Health Project took place at Chopwell Wood in June 2005. At the event the Project reported achievements in its first year in terms of the contacts established, the number of GP

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

England Forestry for Recreation, Access and Tourism

referrals to woodland activities, particularly walking and cycling, and the success of the Healthy Schools programme. Over 40 people attended the event from a wide range of organisations such as Primary Care Trusts, the Strategic Health Authority, Gateshead Council, Age Concern and day care centres as well as local GPs and schoolteachers.

SUMMER CONCERTS – FOREST TOURS

Our 2005 summer concerts programme, marketed under our forest tours banner, again proved very successful with estimated audiences of over 100,000 visiting our forests to see acts such as Beautiful South, Jools Holland and his Rhythm & Blues Orchestra, Madness, Ian Brown and Daniel Beddingfield.

We now host concerts of various musical styles at Delamere Forest Park in Cheshire, Bedgebury Pinetum in Kent, Westonbirt Arboretum in Gloucestershire, Sherwood Pines Forest Park in Nottinghamshire, Dalby Forest in North Yorkshire and Thetford Forest Park in Suffolk. With total turnover approaching £2 million this is now a major business but it has also become a major positive promotion for the Forestry Commission.

TWO ACTIVE ENGLAND PROJECTS

Sport England awarded funding for two additional projects on our Estate alongside Rosliston Forestry Centre which was reported on last year and the implementation of which was completed this year.

🌲 the Bedgebury Forest and Pinetum received funding of £700,000 out of a total project cost of £1.6 million. The project has delivered a new all-timber visitor facilities building which would use fuel heating. This

contains a classroom, small café, cycle hire and retail business, toilets and showers, friends room and office. In addition access to the forest has been greatly increased with an innovative and exciting all abilities playtrail, family walking and cycling routes, and a single track mountain bike route and skills area. The project was constructed within a very tight nine-month window and successfully opened to an excited public on time and to budget over the Easter weekend. The three year funding programme for the project includes support for a Partnerships Officer, an Outreach Worker and a Marketing Manager; and

🌲 the Haldon project received funding of £763,000 out of a total project cost of 950,000. The project has delivered an all-ability play trail, family cycle trail, single track mountain bike route and skills area, toilets and showers. Again the project was delivered on time and to budget and opened to the public at the Easter weekend. The project has funded an Outreach Worker. In addition, at Haldon, a redundant building has been converted into a gallery and workspace by a charity, the Centre for Contemporary Art in the Environment.

MAJOR FOREST CENTRE INFRASTRUCTURE PLANNING PROJECTS.

The planning of a major refurbishment of the Grizedale Forest Centre which will deliver greatly improved facilities for visitors and a wide range of business opportunities throughout the valley has now been completed. Planning approval has now been obtained. Decisions from principal funders were awaited at the year end. A major new

England Forestry for Recreation, Access and Tourism

single track mountain bike route was completed with sponsorship monies from outdoor clothing manufacturer North Face of £60,000.

At Fineshade in Northamptonshire, planning was completed for a major new visitor centre which will convert a combination of the former office accommodation and other redundant buildings. The funding is now in place with £980,000 from ODPM. Completion is expected early in the visitor season of 2007.

The Forest Centre at Alice Holt Woodland Park in South East England has undergone an important makeover to keep pace with the ever-increasing number of visitors to the area (264,000 in 2004). Turnover at the Forest Centre continues to rise steadily, approaching £140,000 for 2004-05, with visitor numbers on some days in the school holidays last summer being near capacity. Significant increases in educational facilities have continued to attract a range of young visitors.

FOREST EDUCATION INITIATIVE

The Forest Education Initiative (FEI), a partnership of nine organisations, is now supporting over 30 cluster groups across England. Over £40,000 was distributed in partnership funds throughout 2005, supporting a variety of work including the development of a story sack called 'Harry's Hazelnut', the development of more Forest Schools and Seed to Saw projects. The FEI co-ordinator was made a permanent full-time employee of the Forestry Commission, increasing the level of support provided for the development of FEI in England. An England-wide FEI steering group has now been formed which will help to direct activity specifically relevant to England. On behalf of FEI, we have led the development of a quality assurance framework to support the development of Forest School. A feasibility study was undertaken in 2005 and consultation with Forest School providers and trainers has led to further piloting during 2006.

England Forestry for Environment and Conservation

The Forestry for Environment and Conservation programme embraces the role that trees and woodland can play in conserving and enhancing the character of our natural environment and cultural heritage. It also contributes to delivering the Government's international commitments on biodiversity and climate change. Our performance against the Spending Review 2002 Service Delivery Agreement targets is shown in Table 5. Key achievements during the year are described below.

AREAS OF OUTSTANDING NATURAL BEAUTY

Our joint project²³ with Countryside Agency continues with additional posts or staff time being provided for woodlands in ten different Areas of Outstanding Natural Beauty (AONB), from Kent to Northumberland. We helped support work in the High Weald to update and improve the Ancient Woodland Inventory and this has identified many new small ancient woods and produced an accurate digital map.

SITES OF SPECIAL SCIENTIFIC INTEREST IMPROVEMENT PROGRAMME

Progress against the target for putting Sites of Special Scientific Interest (SSSIs) into 'favourable and recovering condition' on the Public Forest Estate has now reached 81 per cent, which puts us well ahead in achieving the target of 85 per cent by the target date of April 2008. The condition of woodland SSSIs in other ownerships also continued to improve, with 78 per cent meeting the target. A Woodland Improvement Grant specifically focused on woodland SSSIs was launched, along with support for other initiatives to

address causes of unfavourable conditions, particularly deer.

DEER INITIATIVE

The Deer Initiative (DI) has received re-endorsement from Ministers for its role in ensuring the delivery of a sustainable wild deer population in England. This endorsement has been accompanied by a significant increase in the core funding of the DI, with funds now coming from Defra, English Nature and the Countryside Agency as well as the Forestry Commission. Jane Rabagliati, recently retired Director of Sustainable Development and Rural Affairs in the Government Office for the East of England, has been appointed chair of the DI, taking over from Andrew Hoon. New Deer Liaison Officers have been appointed by the DI to work in South West England and East and West Midlands.

WOODLAND MANAGEMENT FOR BATS

Bats and their roosts enjoy strict protection under the Countryside and Rights of Way Act (CRoW) and Habitat Regulations. Together with colleagues in Wales we led an initiative involving English Nature, the Countryside Council for Wales, and the Bat Conservation Trust which launched a good practice guide²⁴ in October in Exmoor at the first of four regional outreach seminars rolling out the advice. This fills an important guidance gap for woodland managers. At a special EC meeting considering amendment of the Habitats Directive, Defra put this guide forward as a good example of the pro-active UK approach to conservation of European

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

24. <http://www.forestry.gov.uk/forestry/INFD-6K3CXY>

protected species.

WOODLAND MANAGEMENT FOR BIRDS

The joint RSPB/Forestry Commission England 'Woodland Management for Birds: a guide to managing for declining woodland birds in England'²⁵ was launched at Tudeley, Kent in September. The guide focuses on 27 woodland and edge species in steady or steep decline and summarises advice on the practical management needs of each, based on current ecological knowledge.

The guide is part of a growing package of research, survey, guidance and outreach work developing through the Forestry Commission England-led UK Woodland Bird Group (UKWBG) which co-ordinates action aimed at reversing woodland bird declines.

REPEAT WOODLAND BIRD SURVEY

On 20 March, the results of the most comprehensive survey of woodland birds for over 20 years were unveiled by Biodiversity Minister, Jim Knight, with some important findings. The Repeat Woodland Bird Survey²⁶ was funded by Defra, the Forestry Commission, the Woodland Trust, English Nature, the RSPB and BTO, and was carried out and published by the RSPB and BTO. The report highlights the winners and losers of the bird population as a result of our changing landscape and climate, and enables comparison with data from the same surveys carried out over the last 40 years.

Nationally, eleven out of the 34 species surveyed showed large increases in numbers (greater than 25 per cent), whilst eight showed

large decreases (greater than 25 per cent). However, one of the most worrying trends was the decline in long-distance migrants, confirmed for the first time in this survey. Birds such as the tree pipit and spotted flycatcher showed declines of up to 70 per cent in some areas. Amongst resident populations and mid-distance migrants there were some unexpected success stories, with continued growth in numbers of more common birds such as coal, blue and great tits. However, concern continues to grow for their rare cousin the willow tit, which showed a decline of over 70 per cent in some areas.

We acted as a facilitator to pull together the partners, and provided necessary funding. Many of the findings of the survey will be discussed further at the Woodland Bird Conference in Leicester in April, and will be used as a basis for further research studies planned by the funding partners.

NATIONAL NIGHTJAR SURVEY

The results of last year's nightjar survey have now been published. They show that after a century of decline, nightjar populations are increasing due primarily to better heathland management and cyclical clear felling. Our North Yorkshire forests showed the greatest increase, rising to over 200 pairs from only 50 in the mid-1980s.

25. <http://www.forestry.gov.uk/forestry/INFD-6JDHQV>

26. <http://www.forestry.gov.uk/forestry/INFD-6MWL96>

England Forestry for Environment and Conservation

Nightjar and Woodlark, both closely connected with forestry in the last century, have influenced the management of the national forest estate since the 1990s. Over 18,000 hectares of Thetford Forest are designated as European Union Special Protection Area and out of the 30 Species Action Plans for birds these are two of the very few to have exceeded their biodiversity action plan target.

GREY SQUIRREL POLICY

Forestry Minister Jim Knight MP announced the new action plan in a statement to the House of Commons on 20 January. The document, published in January, outlined the plan to humanely control grey squirrels in England, particularly in areas where they are damaging woodland and threatening red squirrel populations.

The action plan and the policy behind it have been developed jointly by Defra and ourselves, following consultation with partners and groups representing countryside, woodland and forestry interests, animal welfare and conservation groups. It balances the need to control grey squirrel numbers in England in order to allow native species – including red squirrels, dormice and woodland birds – to flourish, with an acceptance that eradication of the grey squirrel is not a realistic option.

As a result there has been extensive national and local press interest, which seems to give a balanced account of the policy and what it will entail. The policy was also published on the Forestry Commission website.

RED ALERT NORTH EAST

We have recently been involved in a bid for funding from the Heritage Lottery Fund for a major new initiative aimed at raising awareness about the plight of native red squirrels – we hope to hear if we have been successful in April. The ‘Save Our Squirrels’ project, costed at £1.1 million, will be managed and co-ordinated by Northumberland Wildlife Trust on behalf of the Red Alert North England (RANEng) partnership and concentrate on the 16 priority sites in North England.

At a regional level, Defra have indicated a desire to support red squirrel conservation in the buffer zones of all the reserves, applying the lessons learnt from the pilot project. Discussions have begun as to how this can be taken forward. There is now a sense that Defra, Forestry Commission, English Nature, the Wildlife Trusts and other Red Alert partners are all now pooling resources and working together to deliver the Northern England red squirrel conservation strategy.²⁷

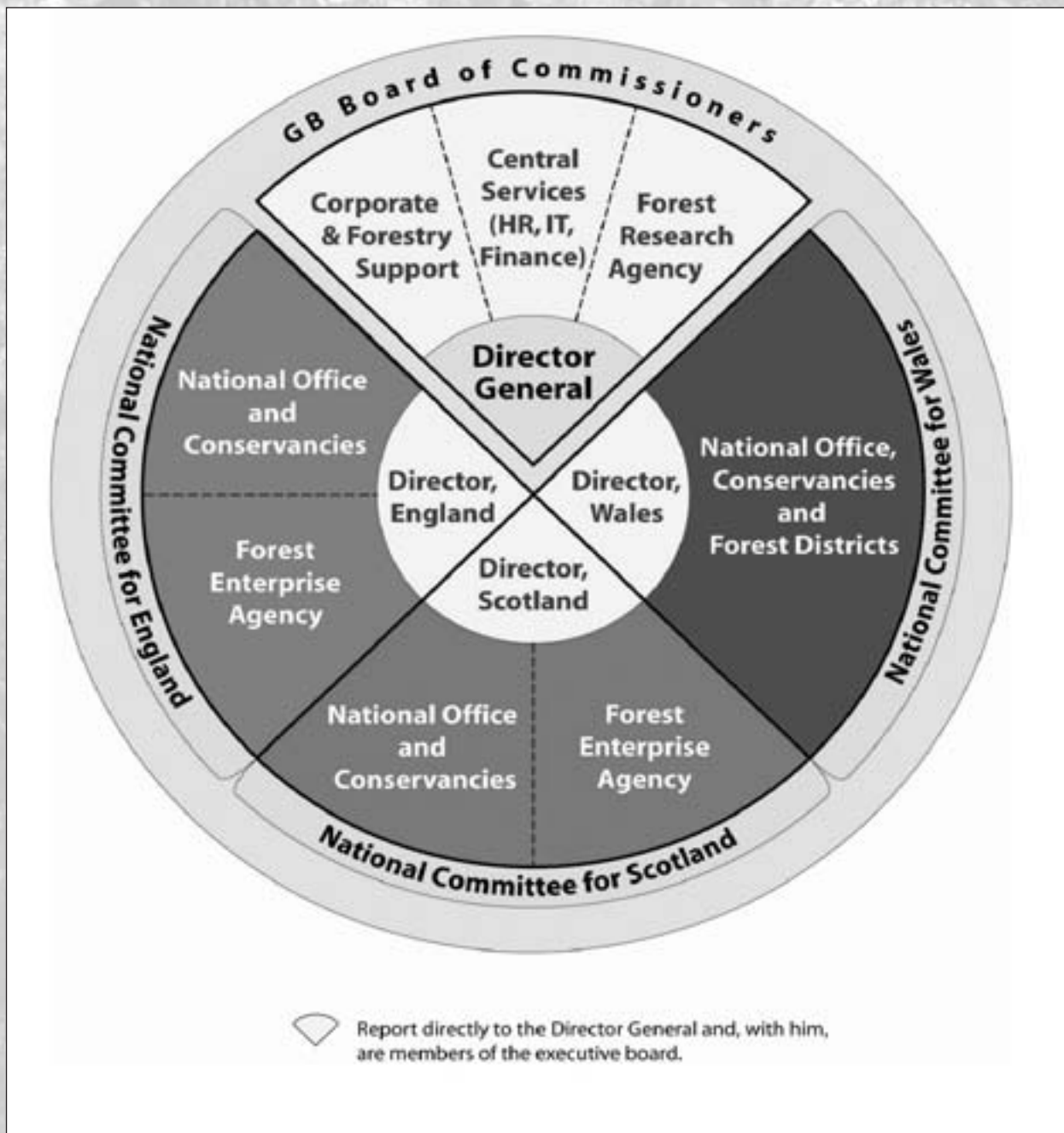
27. Contact Northern England development officer Richard Pow, richard.pow@forestry.gsi.gov.uk, for further information.

THE ROLE AND STRUCTURE OF THE FORESTRY COMMISSION

as at 31 March 2006

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.



Appendices

Appendix 2

FORESTRY COMMISSIONERS AND SENIOR STAFF AS AT 31 MARCH 2006

Board of Commissioners

Lord David Clark	Chairman
Tim Rollinson	Deputy Chairman and Director General
Paul Hill-Tout	Director England
Dr Bob McIntosh	Director Scotland
Ian Forshaw	Director Wales
Anthony Bosanquet	Non-executive Commissioner Wales
Tony Cooper	Non-executive Commissioner England
Dr Victoria Edwards OBE	Non-executive Commissioner England
Martin Gale CBE	Non-executive Commissioner Scotland
Gareth Wardell	Non-executive Commissioner Wales

Forestry Commission GB and Central Services

Wilma Harper	Secretary and Head of Corporate and Forestry Support
Kim Lardge	Director Human Resources
Keith Gliddon	Director Finance
Alan Mitchell	Head of Business Services

Forestry Commission England

Paul Hill-Tout	Director England
Simon Hodgson	Chief Executive Forest Enterprise

Forestry Commission Scotland

Dr Bob McIntosh	Director Scotland
Dr Hugh Insley	Chief Executive Forest Enterprise

Forestry Commission Wales

Ian Forshaw	Director Wales
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Business Units

Craig Heaney	Director Business Units
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Forest Research Agency

Professor Jim Lynch	Chief Executive
Dr Peter Freer-Smith	Chief Research Officer

STATUTORY AND OTHER COMMITTEES APPOINTED BY THE FORESTRY COMMISSION

Membership at 31 March 2006

National Committee

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

Lord David Clark (Chair), Charlotte Cane, Tony Cooper, Gerald Dawe, Dr Victoria Edwards OBE, Paul Hill-Tout, Simon Hodgson, Judith Webb, David Coleman [Defra Observer]. Secretary to the Committee: Mark Pritchard. The Committee met in June, July, September and November 2005 and in January and March 2006.

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; and

- b. to advise the Forestry Commissioners on such other functions as the Forestry Commissioners may from time to time determine. These additional functions include:

- CA conciliate in all disputed applications for grant aid, felling licences or approval of plans of operations under a closed grant scheme where there is a sustained objection by a statutory body; and advise the Forestry Commission on other applications when asked to do so by the Conservator;
- CA advise the Forestry Commission on the implementation at regional level of national forest strategies and associated policies, together with any expressions of these in regional forestry frameworks;
- CA advise on a small number of specific topics and issues which Commissioners will select, focusing on regional issues or implications; and
- CA inform the Forestry Commission 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.

Appendices

Appendix 3

ENGLAND

North West England Conservancy

Professor John Handley (Chair), Martin D Clark, Neil Cumberlidge, Tom Ferguson, Martin Harker, Liz Newton, Martin P Reynolds, Karen Slater. Secretary to the Committee: Andrew Loynd. The Committee met in June and October 2005 and March 2006.

North East England Conservancy

Denise Caudle (Chair), Martyn Batchelor, Clive Davies, David Fruin, Neil Harrison, Lord Anthony Hill, Sian Thomas, Lorraine Weeks, Doug Wentworth. Secretary to the Committee: Isabel Farries. The Committee met in June, September and December 2005 and March 2006.

Yorkshire and The Humber Conservancy

Professor Carys Swanwick (Chair), David Clayden, Val Dilcock, Martin Glynn, Gordon Kingston, Alan Simson, Peter Townson, Richard Walker, David Wilmot Smith MBE. Secretary to the Committee: Lesley Dyson. The Committee met in June and October 2005 and March 2006.

West Midlands Conservancy

Stephen Potter (Chair), Mike Bradbury, Graham Hunt, Nerys Jones, Sara Roberts, Russell Rowley, Andrew Sharkey, Helen Woodman. Secretary to the Committee: Julia Hall. The Committee met in July and November 2005 and March 2006.

East Midlands Conservancy

Julian Purvis (Chair), Ian Biddulph, Steve Clifton, Richard Harvey, Assim Ishaque, Clive Keble, John Lockhart, J Geoff Machin OBE, Councillor Roy Mayhew. Secretary to the Committee: Linda Gravells. The Committee met in June and October 2005 and February 2006.

East of England Conservancy

Dr Gerry Barnes (Chair), Michael Allen, Dr Robert Fuller, Steele Haughton, Julian Pitt, Richard Powell, Tony Talbot, Richard Tattersall, Stephen Westover. Secretary to the Committee: Rose Proctor. The Committee met in July and October 2005 and February 2006.

South West England Conservancy

Sir Harry Studholme (Chair), Sue Blacker, Dr Richard Cresswell MBE, David Dixon, Richard Lloyd, John Rainger, Chris Roberts, David Sisson, Gwilym Wren. Secretary to the Committee: Rachel Pearce. The Committee met in June and November 2005 and March 2006.

South East England Conservancy

Bridget Bloom OBE (Chair), Nigel Braden, Valerie Carter, Andrew Ingram, Duncan Mackay, Steve Rodrick, Derick Stickler, John Tucker, Dr Tony Whitbread. Secretary to the Committee: Caroline Ewin. The Committee met in June and October 2005 and March 2006.

London Conservancy

Marion Kerr (Chair), Paul Akers, Jane Carlsen, Mathew Frith, Jenny Scholfield, Graham Simmonds, David Wardle. Secretary to the Committee: Rose Proctor. The Committee met in July and October 2005 and March 2006.

Forestry Commissioners' Advisory Panel

Barrie Hudson OBE (Chair), Dr Hilary Allison, Dr Peter Bonfield, David Crichton, Tony Hams, Chris Inglis, Professor Terry Marsden, John Meehan, Councillor Iain Ross, Adrian Whiteman, Peter Wilson, William Worsley. Secretary to the Committee: Linda McGinley. The Committee met in May and September 2005.

Advisory Committee on Forest Research

Professor David Read (Chairman), Dr Christine Cahalan, Professor Roland Clift OBE, Professor David Evans, Professor Peter Freer-Smith, Professor Chris Gilligan, Dr Steve Gregory, Professor Paul Jarvis, Dr Keith Kirby, Professor Jim Lynch, Professor Catherine Ward-Thompson. Secretary to the Committee: Claire Holmes. The Committee met in April and November 2005.

Forestry Research Co-ordination Committee

Wilma Harper (Chair), R Brand-Hardy, Malcolm Beatty, Kerry Broadfoot, John Brumwell, Professor John Grace, Professor Bob Harris, Helen Jones, Dr Keith Kirby, Gerry Lawson, John Palmer, Clive Thomas, Dr David A Rook, Cedric Wilkins. Secretary to the Committee: Professor Peter H Freer-Smith. The Committee met in November 2005.

Appendices

Appendix 4

PUBLICATIONS

The Forestry Commission published the following titles during the year ending 31 March 2006. Details of all publications can be found on our website at: www.forestry.gov.uk/publications and many titles can be viewed and downloaded free of charge.

Forestry Statistics 2005 (web publication)
www.forestry.gov.uk/statistics

Forestry Facts and Figures 2005 free

PRACTICE GUIDES/NOTES

FC Practice Note 13: Managing
brush on conifer clearfell sites free

TECHNICAL GUIDES/NOTES

FC Technical Guide: Forest fencing £7.50

TECHNICAL NOTES

(ALL FREE OF CHARGE)

9. Small-scale systems for harvesting
woodfuel products

10. Extraction route trials on sensitive sites

11. Protecting the environment during
mechanised harvesting operations

INFORMATION NOTES (ALL FREE OF CHARGE)

65. Water Use by Trees

66. Development of Multiple Leaders in Sitka
Spruce and Japanese Larch Following
Outplanting

67. Needle diseases of pine

68. Shoot diseases of pine

69. Climate change and British woodland

70. Utilisation of Lodgepole Pine

71. Golden Eagles and New Native Woodland
in Scotland

72. Birch Dieback in Scotland

73. Evaluating Biodiversity in Fragmented
Landscapes: Principles

74. Woodland Owners' Attitudes to Public
Access Provision in South-East England

75. Forest Condition 2004

76. Habitat Use by Red and Grey Squirrels:
Results of Two Recent Studies and
Implications for Management

77. Selecting the Right Provenance of Oak for
Planting in Britain

78. The Influence of Soils and Species on Tree
Root Depth

79. Use of Sewage Sludges and Composts in
Forestry

ORDERING PUBLICATIONS

To order copies of Forestry Commission
publications, please contact:

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

Telephone: 0870 121 4180

Fax: 0870 121 4181

E-mail: forestry@twoten.press.net

AREA OF PLANTING BY PRIVATE WOODLAND OWNERS FOR WHICH GRANTS WERE PAID IN THE YEAR ENDED 31 MARCH 2006

Hectares

	ENGLAND			WALES			SCOTLAND			GREAT BRITAIN		
Woodland Grant Scheme	New Planting	Restocking	Total	New Planting	Restocking	Total	New Planting	Restocking	Total	New Planting	Restocking	Total
Conifer	78	200	278	8	516	524	456	250	706	542	966	1,508
Broadleaved	2,828	393	3,221	452	277	729	2,036	378	2,414	5,316	1,048	6,364
Scottish Forestry Grant Scheme												
Conifer							528	2,786	3,314	528	2,786	3,314
Broadleaved							841	423	1,264	841	423	1,264
English Forestry Grant Scheme												
Conifer	4	-	4							4	-	4
Broadleaved	44	-	44							44	-	44
TOTAL	2,954	593	3,547	460	793	1,253	3,861	3,837	7,698	7,275	5,223	12,498

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 36 hectares of Short Rotation Coppice which was grant aided.

Tables

Table 2

AREA OF PLANTING BY PRIVATE WOODLAND OWNERS FOR WHICH GRANTS WERE PAID IN THE 20 YEAR PERIOD 1 APRIL 1986 TO 31 MARCH 2006

Hectares

Year ended 31 March	ENGLAND			WALES			SCOTLAND			GREAT BRITAIN		
	New Planting	Restocking	Total	New Planting	Restocking	Total	New Planting	Restocking	Total	New Planting	Restocking	Total
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
2004	3,995	758	4,753	469	420	889	6,703	3,618	10,321	11,167	4,796	15,963
2005	4,659	840	5,499	534	270	804	5,647	4,193	9,840	10,840	5,303	16,143
2006	2,954	593	3,547	460	793	1,253	3,861	3,837	7,698	7,275	5,223	12,498

Notes:

1. 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

AREA OF MANAGEMENT GRANT FOR WHICH GRANT WAS PAID IN THE YEAR ENDED 31 MARCH 2006

Hectares

	ENGLAND	WALES	SCOTLAND	GREAT BRITAIN
Standard MG	23	-	-	23
Special MG	15	-	4	19
Annual MG	154,258	5,188	23,464	182,910
Woodland Improvement Grant	8,859	9,616	19,142	37,617
Livestock Exclusion Annual Premium	1,848	735	7,453	10,036
TOTAL	165,003	15,539	50,063	230,605

Tables

Table 3

AREA APPROVED FOR MANAGEMENT GRANT UNDER THE WOODLAND GRANT SCHEME

Hectares

	ENGLAND	WALES	SCOTLAND	GREAT BRITAIN
1996-97				
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
1997-98				
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
1998-99				
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
1999-00				
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
2000-01				
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
2001-02				
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
2002-03				
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
2003-04				
Conifer	8,265	387	2,993	11,645
Broadleaved	30,240	653	1,328	32,221
Total	38,505	1,040	4,321	43,866
2004-05				
Conifer	5,947	81	802	6,830
Broadleaved	24,475	146	245	24,866
Total	30,422	227	1,047	31,696
2005-06				
Conifer	392	1	-	393
Broadleaved	2,523	-	-	2,523
Total	2,915	1	-	2,916

FOREST ENTERPRISE ENGLAND SUMMARY OF KEY PERFORMANCE MEASURES 2005-2006

Sustainable Forest Management	Target for 2004-05	Achieved
Percentage of forest estate certified as sustainably managed.	100%	100%
Percentage of estate managed in accordance with approved Forest Design Plans.	90%	91%
Social		
Increase in area of forest estate with public access.	160 hectares	176 hectares
Area of new woodland created in priority areas for improving the environment of disadvantaged urban communities.	80 hectares	158 hectares
Economic		
Percentage of the annual timber increment which is harvested.	74% ²⁸	77%
Income generated from sources other than timber production and sales of land and property.	£21.0m	£28.4m ²⁹
Environmental		
Percentage of SSSIs in favourable or recovering condition.	75% ³⁰	81%
Progress with implementing relevant UK Biodiversity Action Plan targets.	Complete removal of plantations from 2,000 hectares of heathland sites	Completed
Operational		
Cost per cubic metre of production.	£13.55	£13.56
Profit/(Loss) on timber operations.	£6.1m	£7.1m
Number of reportable accidents per hundred employees.	1.8	1.4
Rate of return from capital invested in the 'Forest Holidays' business.	6.0%	
Percentage of customers and community partners "satisfied".	Key sites will achieve an average satisfaction score >0 ³¹	Met

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

29. Impact of additional 3rd party funding offsetting a mix of capital and revenue expenditure.

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

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

Tables

Table 5

PERFORMANCE AGAINST THE SPENDING REVIEW 2002 SERVICE DELIVERY AGREEMENT TARGETS.

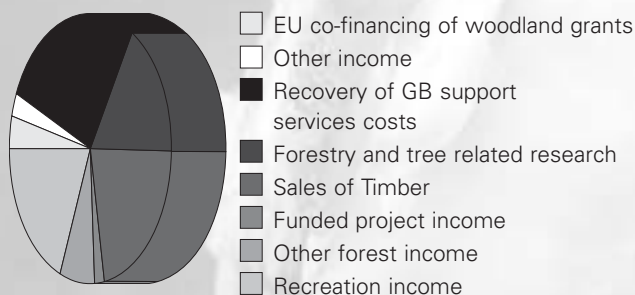
Target Description	Expected Performance 1 April 2003 to 31 March 2006	Outturn to 31 March 2006 and comments	
		Target for 2004-05	Achieved
Sustainable Forest Management			
Expressions of the England Forestry Strategy for each region.	9 Regional Forestry Frameworks by 2004	All RFF's published. Work under way on implementation.	
Area of new woodlands created.	15,000 hectares	12,629 hectares. Approximately 2,400 hectares planted this planting season will be paid and accounted for in the next financial year.	
Area of woodland certified against the UK Woodland Assurance Standard.	350,000 hectares	333,000 hectares. Provisional figure at 09/05. Final figure due 06/06	
Rural Development			
Percentage of annual timber growth harvested each year.	38%	2005 to be published 08/06.	
Baseline study to establish the confidence of woodland and forestry related businesses.	Baseline study and target for improvement	Survey of the Health and Viability of Forest Industry Businesses has been published – work to set a target by end of 2005/06 for improvement to be sought up to end 2007/08.	
Economic Regeneration			
Area of new woodland created priority areas	2,700 hectares	2,335 hectares – achievement is not directly in controlled by the Forestry Commission and relies on partnerships which have been slower to deliver than expected.	
Recreation, Access and Tourism			
Increase in area of woodlands with public access by in priority areas in relation to the 2003 baseline study.	10,000 hectares	13,648 hectares	
Increase the number of day visits to woods and forests.	To 350 million by 2006.	Results from 2004 survey to be available in 2006.	

Conservation and Environment		
Percentage of all SSSIs where the Forestry Commission has statutory responsibilities in favourable condition.	95% by 2010	79% (public forest estate–81%, other–77%).
Implementation of the UK Biodiversity Habitat Action Plans for woodlands England led.	Delivery by 2015	Policy launched by Minister in June 2005. HAP targets have been reviewed, agreed and in submitted to JNCC/Defra.
Number of woodland birds as annually against underlying trends using the Woodland Birds Index.	Long-term decline reversed by 2020	Latest figures show no further decline but measured this single set of data may not represent long term trends. Research on individual species nearing completion and due for publication in April 2006. Guidance on managing woodland for declining birds published September 2005.
Value for money		
Unit cost of administering grant aid.	16p/£ by 2006	19p. The target will not be delivered until GLADE is fully implemented.
Compliance with the FC Customer Service Standard for the Woodland Grant Scheme.	85%	2003/04-86%, 2004/05-78%, 2005/06-90%
Percentage electronic service delivery capability for such payments.	100% by 2006	The target will not be delivered until GLADE is fully implemented.
Unit cost of producing a cubic metre of timber on the Forestry Commission estate.	£13.55/m ³ by 2006	£13.65

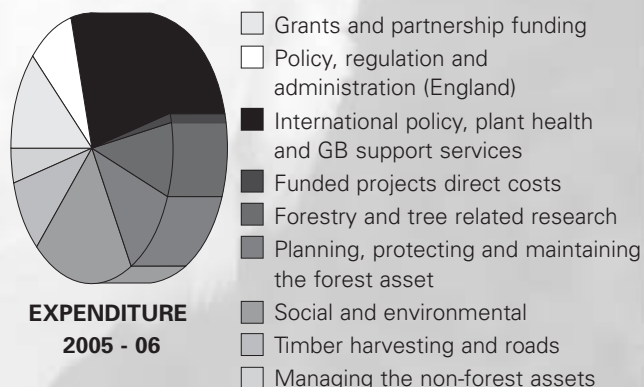
Financial Highlights

SUMMARY INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR ENDED 31 MARCH 2006

	2005-06	2004-05
	£000	£000
INCOME		
Forestry Commission		
EU co-financing of woodland grants	3,746	4,907
Funded project income	1,311	228
Other income	2,480	1,994
Recovery of GB support services costs	23,339	24,238
Forest Research		
Forestry and tree related research	14,361	13,602
Forest Enterprise		
Sales of Timber	18,705	17,347
Other forest income	6,281	5,008
Recreation income	16,713	13,795
	86,936	81,119



	2005-06	2004-05
	£000	£000
EXPENDITURE		
Forestry Commission		
Grants and partnership funding	18,201	20,213
Funded projects direct costs	1,270	161
Policy, regulation and administration (England)	12,916	12,708
International policy, plant health and GB support services	38,507	38,194
Forest Research		
Forestry and tree related research	14,270	13,220
Forest Enterprise		
Planning, protecting and maintaining the forest asset	16,585	14,748
Social and environmental	30,208	24,922
Timber harvesting and roads	13,291	12,259
Managing the non-forest assets	5,899	4,983
	151,147	141,408
Net expenditure for the year	(64,211)	(60,289)



SUMMARY CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2006

	2005-06	2004-05
	£000	£000
Net expenditure for the year	(64,211)	(60,289)
Depreciation and other non-cash items	3,984	3,649
Movement in working capital	846	(5,156)
Movement in provision and liabilities	(208)	(1,383)
Net cash flow from operating activities	(59,589)	(63,179)
Purchase of fixed assets	(5,412)	(5,049)
Net proceeds from disposal of fixed assets	2,985	5,480
Funding from UK Government	(62,016)	(62,748)

SUMMARY BALANCE SHEET AS AT 31 MARCH 2006

	2005-06	2004-05
	£000	£000
Fixed assets	489,680	453,653
Debtors falling due after more than one year	258	361
Current assets	21,520	19,889
Creditors: amounts falling due within one year	(20,271)	(16,680)
Net current assets	1,249	3,209
Creditors: amounts falling due after more than one year	(2,119)	(1,833)
Provision for liabilities and charges	(2,376)	(1,967)
Total assets less liabilities	486,692	453,423
Capital and reserves	486,692	453,423

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INTRODUCTION AND BACKGROUND

BASIS OF ACCOUNTS

The Forestry Commission Great Britain/ England Resource Accounts are prepared in accordance with a direction given by HM Treasury in pursuance of section 5(2) of the Government Resources and Accounts Act 2000.

DEPARTMENTAL ACCOUNTING BOUNDARY

These accounts incorporate the following entities within the departmental boundary funded by the Westminster Parliament:

🌲 Forestry Commission England.

🌲 Forestry Commission Great Britain.

🌲 Forest Research Agency.

Forest Enterprise England, an executive agency of Forestry Commission England, is a public corporation for national accounting. Accordingly, it is outside the departmental boundary for resource accounting with the net funding reflected in these accounts. Forestry Commission Scotland and Forestry Commission Wales each produce their own Resource Accounts.

The Forestry Commission Main Estimate for Westminster is split into two Requests for Resources (RfRs) to separate the responsibilities of England and Great Britain. Forest Research is designated a Great Britain entity. The full descriptions of the RfRs are:

🌲 RfR1 - To implement the programmes of the England Forestry Strategy

🌲 RfR2 - To take the lead in the development and promotion of sustainable forest management and to support its achievement nationally.

NATURE OF THE BUSINESS, ITS STRATEGY, AIMS AND OBJECTIVES

Status

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

The Government of Wales Act 1998, the Scotland Act 1998, and the subsequent statutory instruments, specified the Forestry Commission as a cross-border public authority. The legislation transferred the Ministers' responsibilities for forestry in Scotland and Wales to the Scottish Ministers and the National Assembly for Wales respectively. The Forestry Commission changed its structure on 1 April 2003 to reflect a step change in co-operation with rural affairs departments in England, Scotland and Wales. This co-operation is underpinned by concordats worked up individually between each rural affairs department and the relevant Forestry Commission National Office.

Forestry Commission England came into being on 1 April 2003 and remains part of the Forestry Commission. It serves as the forestry

department of the Westminster Parliament, advising on, and implementing forestry policies. Through the executive agency, Forest Enterprise England, it also manages the public forest estate to deliver public benefits.

Strategy

Forestry Commission England

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

Forestry Commission Great Britain





In the Great Britain role, the Forestry Commission provides advice and support to the UK Government and to the devolved administrations in Scotland and Wales. We set the standards for sustainable forest management and encourage good forestry practice. We conduct forestry research, provide information and we have statutory duties for some regulations that, by agreement with Ministers, are GB-wide. The Forestry Commission's Science and Innovation Strategy for British Forestry was approved by forestry ministers in England, Scotland, Wales and

Northern Ireland in July 2005. The strategy sets out how research programmes are determined and how they are linked to forestry strategies and the wider policy objectives of the UK Government and the devolved administrations.

Aims and Objectives

Forestry Commission England

The aims and objectives of Forestry Commission England flow from the England Forestry Strategy and from the wider objectives of Ministers. The Strategy is based on four key programmes which reflect wider policy objectives. The four programmes set out below are not mutually exclusive:

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

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Forestry Commission Great Britain

Through its powers and duties set out in the various Acts, the objective of the Forestry Commission for its Great Britain activities is "On behalf of all three administrations, to take the lead in development and promotion of sustainable forest management and to support its achievement nationally". A number of the Forestry Commission's functions are operated by agreement on a Great Britain basis and funded directly by the Westminster Parliament. These include:

- 🌲 European and International Forestry Policy – Working with other departments, a team formulates UK policy in international negotiations, develops the UK's national forest programme and advises on implementation of international and European obligations;
- 🌲 Plant Health and Forest Reproductive Materials – The Plant Health Unit has the vital task of preventing entry of harmful pests and diseases from overseas. It also controls the marketing of forest seed, cones, cuttings and plants by approving basic material (e.g. stands, seed orchards), certifying reproductive material and inspecting the nursery trade;
- 🌲 Setting and Monitoring Standards of Sustainable Forest Management – Developing the UK Forestry Standard setting out how the principles of sustainable forest management will be delivered in practice against internationally agreed criteria. The work includes monitoring the state of the UK forestry sector against UK Indicators of Sustainable Forestry published in 2002 and supporting the UK Woodland Assurance

Standard which provides for the independent certification of forest management in the UK.

The Forest Research Agency has its own specific aims and objectives drawn up in the context of the wider Forestry Commission aims and objectives. They are set out in the Agency's Framework Document published in September 2003 and available on the Forestry Commission website at www.forestry.gov.uk.

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

MANAGEMENT COMMENTARY

Operating review

Forestry Commission England

The England Rural Development Programme (ERDP) sets out the Government's support for agriculture, forestry and the rural economy over the period 2000-06. Forestry Commission England's support to the forestry sector includes the English Woodland Grant Scheme (EWGS), which is part of the ERDP. After two years of development the EWGS was introduced in two phases in July and November 2005. EWGS provides incentives for people to create new woodlands and plan, manage and improve existing woodlands. This


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was the first significant change to forestry grant schemes in England since the introduction of the Woodland Grant Scheme (WGS) in 1988. EWGS is a practical expression of the devolution of forestry matters and will allow the Forestry Commission to better respond to the regional agendas in England. EWGS also incorporates annual payments to compensate for agricultural income forgone when trees are planted on farmland; this replaces the previous Farm Woodland Premium Scheme operated by Defra.

In October 2005 the FC established a 'Woodland ERDP Stakeholders' Group' as a means of obtaining advice from those who would be most affected by the Rural Development Programme. This comprises around 30 members, representing all the key organisations. The group has met several times. Defra have attended all the meetings and it therefore provides a direct two-way communication between woodland stakeholders and Government.

We have been working closely with Defra on the 'Modernising Rural Delivery' Programme to implement the recommendations of the Rural Strategy. The main areas of work have been:

 Legislation - contributing to the Natural Environment and Rural Communities Bill which received Royal Assent on 30 March 2006 and will, amongst other things, establish Natural England and enable Defra and its delivery bodies, including the Forestry Commission, to delegate their functions;

 Rural Funding - preparation to rationalise the large number of separate rural funding streams to a framework around three major

funds. The Forestry Commission's EWGS would be part of one of these funds. Implementation of the first phase will be completed by January 2007 when new funding arrangements under the new Rural Development Regulation are put in place; and

 Natural England - preparation for close collaborative working between the Forestry Commission in England and Natural England which is expected to be formally established in October 2006. Collaborative working will be achieved by building on our current interactions with the organisations that will form Natural England. Areas for closer collaboration being considered include the alignment of delivery functions (and in the first instance grants and licensing functions), seeking integrated approaches to land management, the establishment of 'first stop shops', and sharing specialist staff.

During the year, the final Regional Forestry Frameworks were published. These frameworks are regional expressions of the England Forestry Strategy and are prepared through an inclusive, Government led, regional process in which Forestry Commission England plays a significant part. Their form satisfies the needs of the regional agenda, Government bodies and other key stakeholders and each is different and distinctive.

Non-timber income streams from game management, holiday accommodation and recreational opportunities are becoming increasingly important to woodland owners and the local economy. Forestry Commission England supports a wide range of regional and

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local partnerships which aim to improve markets for wood, help woodland and forestry based business, capitalise on the non-timber values, and provide opportunities to diversify. Examples include: the South West Forest in Devon, Cumbria Woodlands and the Heartwoods Initiative.

Forestry Commission England has continued to work with the Office of the Deputy Prime Minister (ODPM) to ensure its programmes assist in the delivery of the wider social, environmental and economic objectives contained in the Sustainable Communities Plan. This was the second full delivery year for the £23 million Newlands 1 Economic Regeneration Scheme, covering Merseyside, Greater Manchester and North Cheshire, funded by the North West Development Agency (NWDA). The scheme is being delivered in partnership with Community Forests, Groundwork and others such as the British Trust for Conservation Volunteers. It will lead to the restoration of 435 hectares of former industrial land by creating community woodlands and form attractive settings to attract and maintain economic investment. The first site, at Moston Vale was formally opened on 10th April 2006.

The Countryside and Rights of Way Act 2000 (CROW) made new provisions for dedicating access rights to the countryside; amended the law relating to nature conservation and the protection of wildlife, and made further provision for Areas of Outstanding Natural Beauty. The process of dedicating the Forestry Commission's estate following the introduction of CROW commenced in September 2004. By the year end, 140,000 Ha had been dedicated and further dedications will follow subject to

third party consents. The New Forest is already mapped as access land under the Law of Property Act.

Putting ancient woodland at the heart of forestry policy has required a range of actions. Forestry Minister Jim Knight MP and FC Chairman Lord Clark launched "Keepers of time: a statement of policy for England's ancient and native woodland " at a press conference in Haslemere on 29 June 2005. The new policy represents a radical change in emphasis for forestry in England, placing ancient and native woodland at the heart of forestry policy. The delivery of the new policy will involve, amongst other initiatives, a programme to encourage the restoration of ancient native woodlands converted to plantations in the last century. The full policy document can be viewed on the FC website at: www.forestry.gov.uk/keepersoftime.

Forestry Minister Jim Knight announced a new policy and action on grey squirrels in a statement to the House of Commons on 20 January 2006. The plan outlines FC support for humane control of grey squirrels in England's woodlands focussing resources on where they are causing the greatest threat to sustainable management and associated public benefits, including priority red squirrel populations. The policy and action document can be viewed on the FC website at: www.forestry.gov.uk/forestry/INFD-6L4D37

Forestry Commission Great Britain

The objective for the department's activities across Great Britain is to take the lead in development and promotion of sustainable forest management. The United Nations Forum on Forests (UNFF) provides an

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important focus to promote sustainable forest management globally and to implement existing commitments. The Forestry Commission led the United Kingdom delegation at the fifth and sixth sessions in New York in May 2005 and February 2006.

The UK Forest Partnership for Action was created in the run-up to the 2002 World Summit on Sustainable Development to promote sustainable development across the forestry sector, and brought together key players from government, business and environmental groups. The Forestry Commission continued to provide support for the Partnership, by providing the Secretariat. The Partnership has achieved what it set out to do, both in general terms and also in the priority areas for action (forest certification, forest restoration and protection, illegal logging, timber procurement) promoting sustainable development in the forest sector. It has added value in that it has helped to: develop links for joined-up working, reach a shared understanding, remove barriers, facilitate dialogue, and share knowledge.

The UK is a lead partner in the Global Partnership on Forest Landscape Restoration working with WWF, IUCN and a range of governments and international organisations who recognise the importance of restoring forest cover in parts of the world where forests have been lost or heavily degraded and who want to be part of a co-ordinated global effort. The Partnership aims to catalyse and reinforces a diverse network of restoration programmes that deliver benefits to local communities and to nurture and fulfil international commitments on forests. The Partnership held a global workshop in April

2005, hosted by the Government of Brazil. The workshop considered outputs from national, sub-regional and regional workshops that had already taken place, developed recommendations for further action, and stimulated increased momentum and investment in forest landscape restoration programmes.

Over the year, 932,000 m³ of sawn wood that is subject to quarantine control were imported and Plant Health Inspectors carried out 4,568 inspections. Forty incidents of non-compliance were detected in sawn timber consignments. The majority of these incidents involved documentary infringements where the consignments were accompanied by invalid phytosanitary certificates. As in previous 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 over 99% of cases.

In conjunction with the Defra Plant Health & Seed Inspectorate the Forestry Commission has continued to monitor for outbreaks of the *Phytophthora ramorum* and *P.kernoviae* pathogens. The management of the campaign is being overseen by the Interdepartmental *Phytophthora* Programme Board. Defra and the Forestry Commission have continued to carry out surveys in Cornwall to determine the incidence of *P. kernoviae*. Up to and including December 2005 *P. kernoviae* had been found at 22 locations in Cornwall. In December 2005 we recommended to Ministers that we move from a strategy of eradication of *P. kernoviae* to one of containment leading to eradication wherever possible. A risk matrix was drawn up which ranked the woodlands and heritage gardens infected with *P. kernoviae* on the level

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of infection, the value of the woodlands, the degree of public access and whether there was plant movement.

During 2005-06 research commissioned by the Forestry Commission ranged from highly applied projects of direct relevance for forest managers to strategic development of concepts and models to inform policy. The science budget also covered analytical services, monitoring and the transfer of knowledge and technology to end-users. The bulk of expenditure was with the Commission's own agency, Forest Research, which presents a separate, detailed report on its activities to Parliament.

A Regulatory Reform Order approved by the Westminster Parliament came into force on 15 March 2006. The Order increased the powers of the Commission in a number of areas of activity in England and Wales by amending the Forestry Act 1967 and the Countryside Act 1968. The Order allows the Commission to:

- 🌲 form or participate/invest in companies, to provide loans and establish Charitable Trusts;
- 🌲 delegate its power to charge in connection with the provision of facilities in the public forest estate;
- 🌲 commercially exploit forestry research; and
- 🌲 require restocking following unlawful felling without first obtaining a conviction and to enforce restocking requirements against lessees and licensees as well as against freeholders.

Although the Order only applies to England and Wales, we are currently involved in the process to facilitate identical changes in Scotland by passing primary legislation through the Scottish Parliament. However, the power to exploit forestry research applies across England, Wales and Scotland. This is because intellectual property law, unlike laws relating to forestry, is a matter reserved to the Westminster Parliament under the Scotland Act 1998.

Financial Review

Cash funding for our activities in England and our GB functions comes from Westminster, from the European Union and from income from the public forest estate managed by Forest Enterprise England. 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.

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

Resources in England are used to sustain and expand woodlands, increase recreation opportunities and public access together with woodland services in accordance with the England Forestry Strategy.

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Timber sales represent the largest single source of income for Forest Enterprise and its financial performance is closely linked to the strength of the round timber market. The relative strength of the currency world-wide and European demand trends, availability and cost of shipping, and the health of the UK construction sector have all contributed to the continuing improvement in the market for home-grown timber. Nevertheless, timber income remains below the level assumed in our 2004 settlement. Every attempt is being made to maximise income from other sources such as recreation.

At the Great Britain level, our resources support work that benefits all three countries. The largest component is research and development carried out by Forest Research and by other providers. The remaining expenditure is on protecting Britain's trees from pests and diseases, representing British interests on the international stage, and other Great Britain-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.

Significant variances against estimate

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

£m	Estimate	Outturn	Difference
Total resource			
RfR1	64.5	63.4	1.1
Total resource			
RfR2	17.5	14.4	3.1
Total resource			
GB/Eng	82.0	77.8	4.2
Net cash requirement	62.0	60.5	1.5

For RfR1, the outturn reflects a lower Forest Enterprise cost of capital than included in the estimate due to a less than anticipated increase in asset valuations.

For RfR2, the estimate included some £2 million revenue provision to cover the development of e-business systems aimed at improving efficiency and effectiveness of delivery of services to customers. In accordance with accepted accounting practice such expenditure has been capitalised. Purchase of fixed assets showed an excess on estimate reflecting this adjustment. The balance of the underspend (£1.1 million) reflects the net effect of various measures taken during the year to reduce administration and programme costs whilst ensuring efficient services continued to be delivered.

The Forestry Commission Great Britain/England recorded an under spend of £1.5 million on actual cash expenditure over estimate that represents a 2.4% saving on the net cash requirement of £62 million.

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Future Events

Post-Balance Sheet Event

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

Until very recently, the Forestry Commission had no express power to hold shares in a limited company or to hold interest in a LLP. Therefore, in respect of the activities carried on by the Forestry Commission in England and Wales, the Forestry Commission undertook to seek an Order under the Regulatory Reform Act 2001 in order to permit the Forestry Commission to participate in the new entity. The Order was granted on 15 March 2006. However, as the Regulatory Reform Act does not apply to matters which are within the legislative competence of the Scottish Parliament the grant of the Order does not affect the powers of the Forestry Commission in or as regards Scotland. Therefore, the Forestry Commission still does not have the necessary powers to participate in any company or LLP which has Scottish assets, or which carries on business in Scotland. The Forestry Commission is seeking primary legislation in the Scottish Parliament which would give the Forestry Commission the necessary powers to enter into the joint venture in respect of the Scottish sites. In the

meantime, Scottish Ministers have approved a separate LLP in Scotland in which Scottish Ministers will act as a member and hold the public sector interest, in place of the Forestry Commission, until the Forestry Commission obtains the necessary powers.

Following the transfer of the Forest Holidays' business, there will be a significant change to the way in which the Forestry Commission will account for its interest in Forest Holidays. As lessors of the sites to the joint venture, Forest Enterprise England will show a long term debtor balance on its balance sheet to represent the net present value of the future rental payments due by the joint venture companies. The Forestry Commission's equity and loan stock investments in the joint venture will be shown separately on the balance sheet of Forest Enterprise England, representing their current value to the Forestry Commission.

Forest Enterprise England has transferred £577,000 of income received in advance for holidays commencing on or after 8 May 2006 that belongs to the LLP. All Forest Holidays' operations will in future be undertaken by the joint venture and Forest Enterprise England will account for its share of the joint venture's profits and assets and liabilities in accordance with Financial Reporting Standard 9.

Future Work

Forestry Commission England's key issues for the coming year are:

Timber Market

Timber prices have shown a moderate increase with a strong demand, however it is likely that timber income will remain only marginally better than the historically low levels experienced in recent years. Optimism has been tempered with the announcement of the closure of the Sudbrook Mill in Gwent which will affect the market for hardwood timber. Forest Enterprise England is continuing to pursue alternative timber markets, including short-term export opportunities and longer term developments for wood energy production.

New Responsibilities

During 2006-07 we are managing the future succession arrangements of the Community Forests. We expect to take on responsibility for the Farm Woodland Premium and Farm Woodland Schemes including legacy payments for the Schemes.

New Powers

The Regulatory Reform Order to enable joint ventures to take place has gained Royal Assent. We are actively considering what other opportunities for further business improvements these new powers will allow.

GLADE

Work continued throughout 2005 on the Grants and Licences Administration Delivered Electronically (GLADE) project. A limited version is now in operation, which delivers most of the basic functionality and refinement of the system will continue in 2006-07.

England Rural Development Programme (ERDP)

The ERDP 2000-06 contributes to the delivery of the Government's Strategy for Sustainable Farming and Food. It is the framework for delivering European funding for a wide diversity of schemes, including those for agri-environment, woodlands, rural enterprise and less favoured areas. It is the source of co-financing for the Forestry Commission's grant schemes. The ERDP ends in December 2006 and Defra is currently leading the production of the successor Programme, known as the Rural Development Programme for England (RDPE) 2007-13, on which negotiations are in progress. Defra want to focus the resources available on action that will make a distinctive and significant impact and have proposed a set of national priorities, structured around three themes (enhancing the environment and countryside; making agriculture and forestry more competitive and sustainable; and enhancing opportunities in rural areas for those who are disadvantaged). In RDPE forestry has a higher profile and also features under all main themes rather than just under the environment measures. We are fully engaged in the development of the Environmental Land Management Fund, which during the RDPE period will bring the Defra family land management funding under one umbrella to deliver the simplification objectives of the Rural Funding Review and Rural Strategy 2004.

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Forestry Commission Great Britain's key issues for the coming year are:

UK Standards and certification

The Forest Guidelines are supporting publications to the UK Forest Standard. Following revision of the standard itself during 2004, we have been working during the year to revise and update the suite of supporting guidelines. They expand upon the Standard by addressing the interaction between forests and a range of particular topics. This is a 3-year project involving wide consultation and we expect the final versions to be produced in 2007.

We have been working with other members of the UK Woodland Assurance Standard (UKWAS) Steering Group to revise the forest certification standard. The UKWAS provides the basis for independent certification in the UK and is used for all forests managed by the Forestry Commission and an increasing percentage of private woodlands. It is endorsed by both major independent forest certification schemes operating in Europe; the Forest Stewardship Council (FSC) and the Programme for the Endorsement of Forest Certification Schemes (PEFC). The revision will be formally launched during 2006.

Plant Health

We have compiled a comprehensive consultation document to explain the complexities of changes to plant health import legislation that require us to change the way we calculate our inspection fees and change the range of material inspected. The consultation will also explain the new rates we propose to charge as a result of the lower volume of timber inspected following EU enlargement. We will be consulting the timber

import trade on our proposals early in the new financial year.

A Science and Innovation Strategy for British Forestry

The strategy was approved by Forestry Ministers in 2005 and implementation will continue under the direction of the Research Strategy Management Board. The strategic research priorities are social and economic development and climate change.

Climate Change

Britain's woods and forests not only face challenges from climate change, but they also offer solutions to many of the problems that it will pose over the next century. With our range of knowledge, skills and practical experience, we are in a unique position to make a real and valuable contribution, and climate change continues to rise on our policy agenda. Although policy might differ across country boundaries, there is a clear recognition that we will benefit greatly from a common approach to communicating the threats, opportunities and our role in delivering practical solutions for the sector. A steering group has been formed to help in this. The group will guide the way we communicate with our key audiences about how we are tackling the issues and challenge of climate change and co-ordinate our various communications activity across the Commission. The group's first priority was the production of a climate change communications strategy setting out key audiences, messages and general approach.

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MANAGEMENT

Ministers

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

Rt Hon Margaret Beckett MP	Secretary of State, Department for Environment, Food and Rural Affairs
Ben Bradshaw MP	Parliamentary Under-Secretary (Commons), Department for Environment, Food and Rural Affairs (until 12 May 2005)
Jim Knight MP	Parliamentary Under-Secretary (Commons), Department for Environment, Food and Rural Affairs (from 13 May 2005)

Forestry Commissioners and Permanent Head of the Department

The Board of Commissioners gives strategic direction to the Forestry Commission and takes decisions on not-devolved or co-ordinated functions. It has a part time non-executive Chairman, Rt Hon Lord Clark of Windermere, and the Director General, Tim Rollinson, as Permanent Head of the Department, acts as Deputy Chairman. Commissioners who served during the year were:

Chairman

Rt. Hon Lord Clark of Windermere

Executive Forestry Commissioners

Tim Rollinson	Director General and Deputy Chairman *
Bob McIntosh	Director, Forestry Commission Scotland *
Simon Hewitt	Director, Forestry Commission Wales (until 29 April 2005) *
Ian Forshaw	Director, Forestry Commission Wales (from 15 December 2005) *
Paul Hill-Tout	Director, Forestry Commission England *

*Members of the Forestry Commission Executive Board

Non-executive Forestry Commissioners

Anthony Bosanquet	Commissioner for Wales
Gareth Wardell	Commissioner for Wales
Dr Victoria Edwards	Commissioner for England
Martin Gale	Commissioner for Scotland and the forestry industry
Andrew Raven	Commissioner for Scotland (until 5 October 2005)
Tony Cooper	Commissioner for Human Resources

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National Committee for England

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

Rt Hon Lord Clark of Windermere	Chair and Forestry Commission Chairman
Dr Victoria Edwards	Non-executive Commissioner for England
Tony Cooper	Non-executive Commissioner for England
Judith Webb	Non-executive member
Gerald Dawe	Non-executive member
Paul Hill-Tout	Director, Forestry Commission England and Executive Commissioner
Rod Leslie	Acting Chief Executive, Forest Enterprise England (until 14 September 2005) and Head of Programme Group, Forestry Commission England (from 15 September 2005)
Simon Hodgson	Chief Executive, Forest Enterprise England (from 15 September 2005)
John Scotney	Head of Corporate Services, Forestry Commission England (until 31 January 2006)
Charlotte Cane	Finance Director, Forestry Commission England (from 31 January 2006)

England Executive Board

The England Executive Board was reconstituted on 17 January 2006. It was established to manage the operations of the business of Forestry Commission England within the policy framework set by Ministers and the National Committee for England. Members who served on the Board were:

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

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Other Forestry Commission Senior Staff Group

The Forestry Commission's Senior Staff Group (SSG) operates by analogy with the Senior Civil Service in the Home Civil Service. Members of the SSG, other than those who served on the Board of Commissioners or National Committees, during the year were:

Professor Jim Lynch	Chief Executive, Forest Research Agency *
Kim Lardge	Director Human Resources*
Keith Gliddon	Director Finance *
Wilma Harper	Secretary to Commissioners and Head of Corporate and Forestry Support *

*Members of the Forestry Commission Executive Board

Peter Freer-Smith	Research Director, Forest Research Agency
Craig Heaney	Director, Forestry Commission Business Units
Alan Mitchell	Head of Business Services Division
Roger Herbert	Head of Country Services (until 30 June 2005)
Mike Dudley	Head of International Policy (from 4 July 2005)
David Henderson-Howat	Special Projects
Peter Ranken	Head of Recreation and Development, Forest Enterprise England
Derek Gilfillan	Head of Procurement (from 5 December 2005)

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

OTHER DISCLOSURES

Employment Policies

The Forestry Commission values and respects its staff by treating each member with respect and trust and in doing so recognises that each person is different and can make a unique contribution to the work. The purpose of the Forestry Commission's employment policy is to demonstrate that it is an equal opportunity employer and the aim is to be fair to everybody. To do this the Forestry Commission ensures that no eligible job applicant, or employee receives less favourable treatment on the grounds of their gender, or gender re-assignment, ethnic origin, disability, age, nationality, national origin,

sexual orientation, marital status, religion and religious or philosophical belief, social class or offending background.

All employees, whether part-time, full time or temporary will be treated fairly and equally. Selection for employment, promotion or training or any other benefit will be on the basis of aptitude and ability. All employees will be helped and encouraged to develop their full potential and the talents and resources of the workforce will be fully utilised to maximise the efficiency of the organisation. No person shall be disadvantaged by conditions or requirements which cannot be shown to be justifiable.

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The Forestry Commission also follows good employer practices aimed at ensuring that all staff work in an environment free from both illegal and unfair discrimination and harassment. Consolidated statements of the Commission's obligations with regard to equality of opportunity and diversity are shown in the Staff Handbook. Full details of these initiatives arising from our policies are also set out in the Human Resources intranet site.

The Forestry Commission will monitor the success of its policies by:-

- 🌲 Collecting and analysing data as appropriate.
- 🌲 Regularly reviewing procedures (recruitment, performance management, promotion and pay) to ensure that they are free of unfair discrimination.
- 🌲 Reporting the results of equality and diversity monitoring to the Human Resources Management Sub-Committee on an annual basis.
- 🌲 Liaising closely with Cabinet Office and other Government Departments to ensure that we are keeping abreast of all changes in legislation and other developments.

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 Human Resources unit of the Forestry Commission.

Pensions

Information on pensions is contained in the Remuneration Report and accounting policy note 1.15.

Supplier Payment Policy

Forestry Commission Great Britain/England complies with the Government's Better Payment Practice Code. Unless otherwise stated in the contract, we aim to pay within 30 days from the receipt of goods and services or the presentation of a valid invoice, whichever is the later. A sample analysis for 2005-06 indicates that 98.3% of invoices paid by the Forestry Commission Great Britain/England and 99.9% 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.

Auditors

The accounts of Forestry Commission Great Britain/England are audited by the Comptroller and Auditor General under the Government Resources and Accounts Act 2000.

Disclosure of audit information to the auditors

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

T J D Rollinson
Accounting Officer
13 July 2006

REMUNERATION POLICY

Fees for non-executive Commissioners are determined in accordance with guidelines prescribed by the Cabinet Office. The Forestry Commission's Senior Pay Committee comprises the Chairman, Director General, Director, Forestry Commission Scotland, Director, Forestry Commission England, and three other non-executive Commissioners. The Chairman and non-executive members determine the Director General's pay. The Chairman, Director General and non-executive Commissioners take decisions in respect of Country Directors. The entire committee takes decisions on remaining senior staff posts in accordance with guidelines prescribed by the Cabinet Office.

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

☛ The Senior Pay Committee take into account the recommendations of the Senior Salaries Review Body (SSRB). SSRB is responsible for monitoring the operation of the Senior Civil Service pay system and for making recommendations to the Government on the shape of the system, including the salary values for the minimum, progression target rate and maximum of each of the senior pay bands, the range of percentage increases to base salary and range of bonuses.

☛ Reporting Officers consider the relative performance of each of their senior staff and recommend an appropriate performance tranche, whether a bonus should be paid and if so whether low or high. The Senior Pay Committee consider

the recommendations, determine the allocation of senior staff to tranches, and decide the percentage increase to salary and any bonus to be awarded.

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

EMPLOYMENT CONTRACTS

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

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

Rt Hon Lord Clark of Windermere was appointed on a six year contract commencing on 10 December 2001. Anthony Bosanquet was appointed on a six year contract commencing on 18 January 2001. Gareth Wardell was appointed on a six year and 2 month contract commencing on 1 November 1999.

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Dr Victoria Edwards was appointed on a six year and four month contract commencing on 1 November 1999.

Martin Gale was appointed on a five year and eleven month contract commencing on 1 May 2003.

Tony Cooper was appointed on a three year contract commencing on 18 January 2004

Further information about the work of the Civil Service Commissioners can be found at www.civilservicecommissioners.gov.uk

SALARY AND PENSION ENTITLEMENTS

The salary and pension entitlements of the Forestry Commissioners, members of the National Committee for England, the England Executive Board and Great Britain senior staff were as follows:

	2005-06		2004-05	
	Salary £000	Benefits in kind To the nearest £100	Salary £000	Benefits in kind To the nearest £100
Rt Hon Lord Clark of Windermere	45-50	-	45-50	-
Tim Rollinson	115-120	-	105-110	-
Anthony Bosanquet	5-10	-	5-10	-
Gareth Wardell	10-15	-	10-15	-
Dr Victoria Edwards	5-10	-	5-10	-
Martin Gale	5-10	-	5-10	-
Andrew Raven (until 5 October 2005)	5-10 (10-15 full year equivalent)	-	10-15	-
Tony Cooper	5-10	-	5-10	-
Paul Hill-Tout	80-85	-	80-85	-
Judith Webb	5-10	-	0-5	-
Gerald Dawe	0-5	-	0-5	-
John Scotney (until 31 January 2006)	35-40 (40-45 full year equivalent)	-	40-45	-
Mark Pritchard	50-55	1,400	50-55	900
Charlotte Cane (from 1 December 2005)	15-20 (50-55 full year equivalent)	-	-	-
Richard Britton	55-60	2,000	50-55	1,300
Kim Lardge	80-85	-	35-40 (75-80 full year equivalent)	-
Wilma Harper	55-60	-	55-60	-
David Henderson-Howat	80-85	-	90-95	-
Keith Gliddon	70-75	-	55-60	-

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Craig Heaney	75-80	1,100	65-70	800
Alan Mitchell	75-80	-	65-70	-
Roger Herbert (until 30 June 2005)	15-20 (65-70 full year equivalent)	-	65-70	-
Derek Gilfillan (from 5 December 2005)	15-20 (full year equivalent 50-55)	-	-	-
Mike Dudley	50-55	-	-	-
Jim Lynch	80-85	-	80-85	-

The salary and pension entitlements of Bob McIntosh, an Executive Forestry Commissioner, are borne and disclosed in the Forestry Commission Scotland Annual Report and Accounts 2005-06 as he is Director, Forestry Commission Scotland.

The salary and pension entitlements of Simon Hewitt and Ian Forshaw, Executive Forestry Commissioners during the year, are borne and disclosed in the Forestry Commission Wales Annual Report and Accounts 2005-06. Simon Hewitt retired as Director, Forestry Commission Wales on 29 April 2005 and Ian Forshaw was appointed Director, Forestry Commission Wales on 30 April 2005.

The salary and pension entitlements of Rod Leslie and Simon Hodgson, members of the National Committee for England during the year are borne and disclosed in the Forest Enterprise England Annual Report and Accounts 2005-06. Simon Hodgson joined the National Committee for England on 15 September 2005.

The salary and pension entitlements of Peter Ranken, a member of the Forestry Commission Senior Staff Group and Head of Recreation and Development during the year, are borne and disclosed in the Forest Enterprise England Annual Report and Accounts 2005-06.

The salary and pension entitlements of Peter Freer-Smith, a member of the Forestry Commission Senior Staff Group during the year are borne and disclosed in the Forest Research Annual Report and Accounts 2005-06.

The salary and pension entitlements of the members of the Forest Research Management Board and Forest Enterprise England Management Board are shown in each of the agency's Annual Report and Accounts 2005-06.

SALARY

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

BENEFITS IN KIND

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

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PENSION BENEFITS

	Accrued pension at age 60 at 31 March 2006 and related lump sum £000	Real increase in pension and related lump sum at age 60 £000	CETV at 31 March 2006	CETV at 31 March 2005	Real increase in CETV	Employer contribution to partnership pension account Nearest £100
Tim Rollinson	40-45 plus LS of 120-125	2.5-5.0 plus LS of 7.5-10	791	588	49	-
Paul Hill-Tout	25-30 plus LS of 75-80	0-2.5 plus LS of 2.5-5.0	436	323	15	-
John Scotney	15-20 plus LS of 50-55	0-2.5 plus LS of 2.5-5.0	349	264	18	-
Mark Pritchard	15-20 plus LS of 45-50	0-2.5 plus LS of 0-2.5	278	211	5	-
Charlotte Cane	5-10 plus LS of 25-30	0-2.5 plus LS of 0-2.5	161	141	9	-
Richard Britton	15-20 plus LS of 35-40	0-2.5 plus LS of 0-2.5	235	164	14	-
Kim Lardge	0-5.0 plus LS of 0-5	0-2.5 plus LS of 0-2.5	38	10	18	-
Wilma Harper	20-25 plus LS 0-5	0-2.5 plus LS 0-2.5	382	292	4	-
David Henderson-Howat	20-25 plus LS of 70-75	0-2.5 plus LS of 2.5-5.0	466	355	17	-
Keith Gliddon	25-30 plus LS of 85-90	5.0-7.5 plus LS of 15.0-17.5	607	395	115	-
Craig Heaney	30-35 plus LS of 100-105	0-2.5 plus LS of 5.0-7.5	770	600	42	-
Alan Mitchell	35-40 plus LS of 105-110	0-2.5 plus LS of 5.0-7.5	843	656	52	-
Derek Gilfillan	0-5 plus LS of 0-5	0-2.5 plus LS of 0-2.5	2	-	2	-
Mike Dudley	15-20 plus LS of 55-60	0-2.5 plus LS of 0-2.5	361	275	13	-
Jim Lynch	0-5.0 plus LS of 0-5	0-2.5 plus LS of 0-2.5	76	42	25	-

CIVIL SERVICE PENSIONS

Pension benefits are provided through the Civil Service Pension arrangements. From 1 October 2002, civil servants may be in one of three statutory based 'final salary' defined benefit schemes (classic, premium, and classic plus). The schemes are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under classic, premium, and classic plus are increased annually in line with changes in the Retail Prices Index. New entrants after 1 October 2002 may choose between membership of premium or joining a good quality 'money purchase' stakeholder arrangement with a significant employer contribution (partnership pension account).

Employee contributions are set at the rate of 1.5% of pensionable earnings for classic and 3.5% for premium and classic plus. Benefits in classic accrue at the rate of 1/80th of pensionable salary for each year of service. In addition, a lump sum equivalent to three years' pension is payable on retirement. For premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum (but members may give up (commute) some of their pension to provide a lump sum). Classic plus is essentially a variation of premium, but with benefits in respect of service before 1 October 2002 calculated broadly as per classic.

The partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3% and 12.5% (depending on the age of the member) into a stakeholder pension product chosen by the employee from a

selection of approved products. The employee does not have to contribute but where they do make contributions, the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.8% of pensionable salary to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement).

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

CASH EQUIVALENT TRANSFER VALUES

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies. The CETV figures, and from 2003-04 the other pension details, include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the Civil Service pension arrangements and for which the CS Vote has received a transfer payment commensurate with the additional pension liabilities being assumed. They also include any additional

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pension benefit accrued to the member as a result of their purchasing additional years of pension service in the scheme at their own cost. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

Please note that the factors used to calculate the CETV were revised on 1 April 2005 on the advice of the Scheme Actuary. The CETV figure for 31 March 2005 has been restated using the new factors so that it is calculated on the same basis as the CETV figure for 31 March 2006.

REAL INCREASE IN CETV

This reflects the increase in CETV effectively funded by the employer. It takes account of the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

T J D Rollinson
Accounting Officer
13 July 2006

Statement of Forestry Commissioners' and Accounting Officer's Responsibilities

1. Under section 5(2) of the Government Resources and Accounts Act 2000, the Forestry Commissioners are 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 ensuring that resources authorised by Parliament and sums to be paid out of the Consolidated Fund, in respect of the Forestry Commission, are used for the purposes intended by Parliament. He must ensure that there is a high standard of financial management, including a sound system of internal control; that financial systems and procedures promote the efficient and economical conduct of business and safeguard financial propriety and regularity; that financial considerations are taken into account in decisions on policy proposals; and risk is considered in relation to assessing value for money.
4. In preparing the accounts the Principal Accounting Officer is required to comply with the *Government Financial Reporting Manual* prepared by HM Treasury, and in particular to:

 - observe the Accounts Direction issued by H M Treasury including relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
 - make judgements and estimates on a reasonable basis;
 - state whether applicable accounting standards, as set out in the Government Financial Reporting Manual, have been followed, and disclose and explain any material departures in the accounts ;
 - prepare the accounts on the going concern basis.
5. As Principal Accounting Officer, the Director General of the Forestry Commission has designated Director, Forestry Commission England and the Chief Executive of Forest Research as Accounting Officers. 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 other Accounting Officers, together with their respective responsibilities, is set out in writing.

Statement on Internal Control

1. SCOPE OF RESPONSIBILITY

Forestry Commission

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

The Forestry Commission is a Great Britain cross-border department responsible for forestry matters and which has a Board of Commissioners with duties and powers prescribed by statute. Forestry is a devolved matter. The Secretary of State for Environment, Food and Rural Affairs has responsibility for forestry in England as well as certain activities such as international affairs, plant health and forest research which remain reserved by Westminster. Scottish Ministers and the Welsh Assembly Government have responsibility for forestry in Scotland and Wales respectively. The Forestry Commission in each country works closely with the respective rural affairs department underpinned by individual concordats.

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

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

The Director General is the Deputy Chairman of the Forestry Commissioners and the senior official in the Forestry Commission. In addition to his role as a Commissioner, he is the Principal Accounting Officer, formally responsible to the Westminster Parliament for the financial affairs of the Forestry Commission. The accountability arrangements for the Principal Accounting Officer of the Forestry Commission are set out in the Memorandum at Annex 4.1 of Government Accounting.

The Forest Research Agency, funded from the Westminster vote, is the principal organisation in Great Britain engaged in forestry and tree related research and is the research agency of the Forestry Commission. The Chief Executive is responsible, normally through the Director General, to the Forestry Commissioners for the management of the Agency. The Chief Executive has a right of direct access to the Commissioners, and to the relevant Minister, and will meet them at least once a year. The Chief Executive is a member of the Forestry Commission's Executive Board.

Forestry Commission England

The National Committee in England is chaired by a non-executive Forestry Commissioner and its members include a further two non-executive Commissioners, the Director, Forestry Commission England, the Agency

Chief Executive, a member from the Department for Environment, Food and Rural Affairs, Finance Director, Head of Programme Group and two non-executive members.

The Director, Forestry Commission England is the executive Forestry Commissioner responsible to the Forestry Minister and to the Director General for the work of the Forestry Commission in England. From 1 April 2004, the Treasury appointed Director England as Accounting Officer for the new Request for Resources 1 (RfR1) relating to the implementation of the programmes of the England Forestry Strategy. The exact responsibilities between the Additional Accounting Officer for RfR1 and the Principal Accounting Officer are set out in a separate Letter of Understanding. The Director General acts as the Accounting Officer for Request for Resources 2 (RfR2) that covers the Forestry Commissions' lead role in the development and promotion of sustainable forest management and to support its achievement nationally.

The Chief Executive of the Forest Enterprise England Agency is responsible, normally through the Director, Forestry Commission England, to the National Committee for England for the management of the Agency. The Chief Executive is a member of the National Committee and is designated as Agency Accounting Officer, responsible for the Agency's accounts and financial procedures and for the proper, effective and efficient use of resources provided to the Agency within the terms of the Framework Document and in pursuit of the agreed objectives and targets. The Chief Executive has a right of direct access to the Commissioners, and to the relevant Minister, and will meet them at least once a year.

Public Accounts Committee

The Director General, Director, Forestry Commission England and the Agency Chief Executives are liable to be summoned to appear before the Public Accounts Committee to answer for their respective responsibilities. It will be for Ministers to decide who should represent them at other Parliamentary Committee hearings.

2. THE PURPOSE OF THE SYSTEM OF INTERNAL CONTROL

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives. It can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of Forestry Commission Great Britain/England's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in Forestry Commission Great Britain/England for the year ended 31 March 2006 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

3. CAPACITY TO HANDLE RISK

The Forestry Commission Great Britain/England has taken a positive approach to risk that it feels is entirely appropriate to its role and remit. Risk management is the responsibility of every member of staff in Forestry Commission Great Britain/England. Everyone has a role to play in managing risks and therefore understands and accepts

Statement on Internal Control

responsibility for managing the risks within their own area of authority. Risk awareness and responsibility lies in parallel with the structure of the Forestry Commission's objectives in Great Britain/England and at every level of objective there is an equivalent delegation of responsibility of associated risk.

The resources available for managing risk are finite and so the aim is to achieve an optimum response to risk, prioritised in accordance with the evaluation of risk. The system of internal control incorporates risk management. The system encompasses a number of elements that together facilitate an effective and efficient operation, enabling Forestry Commission Great Britain/England to respond to a variety of operational, financial and commercial risks. These elements include:

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

4. THE RISK AND CONTROL FRAMEWORK

Forestry Commission Great Britain/England is committed to a process of continuous development and improvement: developing systems in response to any relevant reviews and developments in best practice in this area. In particular, in the period covering the year to 31 March 2006 and up to the signing of the accounts Forestry Commission Great Britain/England has:

- 🌲 Worked with a private sector risk management expert to develop a series of workshops. The purpose of the workshops is to share experiences of handling risk at country and agency level, to review progress on embedding risk management and to ensure common standards when assessing risks;
- 🌲 Participated in the Forestry Commission wide, Risk Management Group (RMG), whose purpose is to ensure continued development of risk management within, and the sharing of best practice across, the Commission. The RMG met on four occasions, in July, November and December 2005, and in March 2006;
- 🌲 Implemented the revised Forestry Commission risk policy statement considered by both the Forestry Commission Executive Board and the Forestry Commission Audit Committee before being approved by the Board of Commissioners in September 2005;
- 🌲 Updated existing risk registers to reflect newly identified potential risks and appropriate control measures for agreement by management board

Statement on Internal Control

members. This has included the further enhancement of the Risk Register methodology to clearly define inherent and residual risk; and

- 🌲 Supported the purchase and population of a commercial risk management software package. The software chosen integrates with that used by Internal Audit for planning and assignment management who has worked with the RMG co-ordinator during the year on its configuration and implementation. The system contains a number of reports designed to assist management in monitoring key risks.

The size and membership of the Forestry Commission Audit Committee is designed to represent all parts of the Forestry Commission. The Committee met three times during the year, in April, July and December 2005, to consider a range of reports from management, and from internal and external audit.

The Audit Committee, in the main, deals with higher level issues concerning control and governance. Country Directors and the Agency Chief Executives are provided with more detailed advice on the work of Internal Audit in particular, and control in general, via their local Internal Control Committee (ICC). The ICC's objectives are to:

- 🌲 provide a forum for senior management to discuss internal control and audit matters;
- 🌲 promote understanding of the internal audit role and objectives; and

- 🌲 assist the Head of Internal Audit in defining the scope of audit coverage and assessing priorities.

The ICC in England met twice during the year, in September 2005 and March 2006 to receive reports on audit activity, risk management and feedback on the work of the Audit Committee. The ICC for Forest Research met three times during the year, in April 2005, December 2005 and March 2006.

During the year, Internal Audit concluded a review of the structure, interactions and functioning of the Board of Commissioners, the Forestry Commission Executive Board and the National Committees. The Board of Commissioners discussed the findings alongside a paper covering some wider issues arising from the requirements of the new Code on Corporate Governance for government bodies. The Board agreed that country based audit committees should be set up, to provide for a more effective review of each set of annual accounts in particular, but the new arrangements were dependent on the Board's agreement of terms of reference for the various decision-making bodies noted above. The Board finally agreed the responsibilities and relationships of the bodies in June 2006. A decision on the future role and conduct of a Forestry Commission Great Britain audit committee was deferred pending further discussion with the current FCAC Chair. Interim one-off arrangements were put in place to review the presentation of the 2005-06 accounts for Forestry Commission Great Britain/England, Forest Enterprise England and Forest Research and associated Internal Audit business, utilising existing ICC members and external audit attendance. Proposed terms of

Statement on Internal Control

reference for the country audit committees have been drafted and will be finalised once the meeting with the FCAC Chair has taken place in July 2006.

An Internal Audit review in 2004-05 identified that the Forestry Commission, as a whole, did not have fully developed contingency plans in place to effectively manage failure in key business systems. Since then, there has been some progress and most importantly a change of responsibility for business continuity planning was agreed by the Forestry Commission Executive Board in December 2005. This work is now co-ordinated by Director Finance via the RMG. The change recognises the need for the business areas to prepare contingency plans which meet their needs and which clearly link to business driven risk management. Internal Audit will monitor progress through their involvement with the RMG and pursue more detailed work later in 2006-07.

5. REVIEW OF EFFECTIVENESS

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

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

The Head of Internal Audit has prepared a suite of annual reports and assurance statements to Country Directors and Agency Chief Executives in their capacities as Additional and Agency Accounting Officers. The reports include an overall assessment of the adequacy and effectiveness of risk management, control and governance within each entity. As the Principal Accounting Officer, I have received a similar report and assurance statement including any comments specific to the Great Britain core responsibilities. The overall opinion is that internal control within the Forestry Commission continues to provide substantial assurance that material risks to the achievement of objectives are adequately managed.

6. SIGNIFICANT INTERNAL CONTROL PROBLEMS

The significant problem involving delays in completion of the monthly bank reconciliations undertaken centrally was reported in last year's statement. The reconciliations were brought up to date during 2005-06 and Internal Audit undertook a verification check in November 2005 to provide assurance that the process was back under proper control for the 2005-06 accounts. In February 2006 Internal Audit again confirmed that the reconciliations were continuing to be performed on time and that any outstanding adjustments had been actioned. They reviewed improvements to the system and were satisfied that sufficient work had been undertaken by management to clear the item from the Statement on Internal Control.

T J D Rollinson
Accounting Officer
13 July 2006

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

I certify that I have audited the financial statements of Forestry Commission Great Britain / England for the year ended 31 March 2006 under the Government Resources and Accounts Act 2000. These comprise the Statement of Parliamentary Supply, the Operating Cost Statement and Statement of Recognised Gains and Losses, the Balance Sheet, the Cashflow Statement and the Statement of Operating Costs by Departmental Aim and Objectives and the related notes. These financial statements have been prepared under the accounting policies set out within them.

RESPECTIVE RESPONSIBILITIES OF THE ACCOUNTING OFFICER AND AUDITOR

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

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

I report to you my opinion as to whether the financial statements give a true and fair view and whether the part of the Financial Statements and the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000. I also report whether in all

material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. I also report to you if, in my opinion, the Annual Report is not consistent with the financial statements, if the Department has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by HM Treasury regarding remuneration and other transactions is not disclosed.

I review whether the statement on pages 92-96 reflects the Department's compliance with HM Treasury's guidance on the Statement on Internal Control, and I report if it does not. I am not required to consider whether the Accounting Officer's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the Department's corporate governance procedures or its risk and control procedures.

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises only include the titles included in the Annual Report, the unaudited part of the Remuneration Report, and the Management Commentary. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

BASIS OF AUDIT OPINION

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board.

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

My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the Department's circumstances, consistently applied and adequately disclosed.

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

OPINIONS

In my opinion:

the financial statements give a true and fair view, in accordance with the Government Resources and Accounts Act 2000 and directions made thereunder by HM Treasury, of the state of the Department's affairs as at 31 March 2006 and the net cash requirement, net resource outturn, resources applied to objectives, recognised gains and losses and cashflows for the year then ended;

the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000; and

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
18 July 2006

Statement of Parliamentary Supply

SUMMARY OF RESOURCE 2005-06

			Estimate		Outturn		2005-06 £000	2004-05 £000	
	Note	Gross expenditure	A in A	Net Total	Gross expenditure	A in A	Net Total	Net total outturn compared with estimate: saving/ (excess)	Net Total
Request for resources 1	2	67,604	(3,112)	64,492	66,531	(3,112)	63,419	1,073	55,574
Request for resources 2	2	17,457	-	17,457	14,370	-	14,370	3,087	12,891
Total resources	3	85,061	(3,112)	81,949	80,901	(3,112)	77,789	4,160	68,465
Non-operating cost A in A	-	-	-	-	-	-	-	-	-

NET CASH REQUIREMENT 2005-06

	Note	Estimate	Outturn	2005-06 £000	2004-05 £000
				Net total outturn compared with Estimate: saving/(excess)	Outturn
Net cash requirement	4	62,016	60,513	1,503	60,328

SUMMARY OF INCOME PAYABLE TO THE CONSOLIDATED FUND

	Forecast 2005-06 £000	Outturn 2005-06 £000
Total	-	-

Explanations of variances between Estimate and outturn are given in the Management Commentary.

The notes on pages 104 to 126 form part of these accounts

Operating Cost Statement and Statement of Recognised Gains and Losses

OPERATING COST STATEMENT for the year ended 31 March 2006

							2005-06 £000		Restated 2004-05 £000
				Core			Consolidated	Core	Consolidated
	Note	Staff Costs	Other Costs	Income	Staff Costs	Other Costs	Income		
Administration Costs:									
Staff Costs	5	16,904			25,818			16,229	24,628
Other administration costs	6		30,633			21,291		31,587	22,490
Operating income	8			(21,243)			(20,520)	(22,625)	(21,908)
Programme costs:									
Request for resources 1:									
Programme costs	7		59,132			59,132		54,988	54,988
EU receipts	8			(3,746)			(3,746)	(4,907)	(4,907)
Other income	8			(2,095)			(2,095)	(746)	(746)
Request for resources 2:									
Programme costs	7		484			3,173		369	2,981
EU receipts	8			-			(998)	-	(1,133)
Other income	8			(418)			(2,054)	(480)	(1,951)
Totals		16,904	90,249	(27,502)	25,818	83,596	(29,413)	74,415	74,442
Net Operating Cost				79,651			80,001	74,415	74,442

STATEMENT OF RECOGNISED GAINS AND LOSSES for the year ended 31 March 2006

			2005-06 £000		2004-05 £000
	Note	Core	Consolidated	Core	Consolidated
Net gain on revaluation of tangible fixed assets	18	94	838	46	450
Realised element in revaluation	18	7	46	-	-
Recognised gains and losses for the financial year		101	884	46	450

The notes on pages 104 to 126 form part of these accounts

BALANCE SHEETS as at 31 March 2006

		2005-06 £000		2004-05 £000	
	Note	Core	Consolidated	Core	Consolidated
Fixed Assets:					
Tangible assets	10	5,848	17,455	4,144	15,258
Intangible Assets	11	1,453	1,560	1,301	1,351
Debtors falling due after more than one year	13	51	83	96	118
Current assets:					
Stocks	12	1,024	2,310	1,061	1,523
Debtors	13	4,647	5,365	4,989	6,373
Cash at bank and in hand	14	1,276	1,503	1,872	2,420
		6,947	9,178	7,922	10,316
Creditors (amounts falling due within one year)	15	(9,377)	(9,820)	(10,351)	(10,960)
Net current liabilities		(2,430)	(642)	(2,429)	(644)
Total assets less current liabilities		4,922	18,456	3,112	16,083
Provisions for liabilities and charges	16	(1,025)	(1,468)	(1,328)	(1,406)
		3,897	16,988	1,784	14,677
Taxpayers' equity:					
General fund	17	3,422	10,767	1,402	9,254
Revaluation reserve	18	475	6,221	382	5,423
		3,897	16,988	1,784	14,677

T J D Rollinson
Accounting Officer
13 July 2006

The notes on pages 104 to 126 form part of these accounts

Consolidated Cash Flow Statement

CONSOLIDATED CASH FLOW STATEMENT for the Year Ended 31 March 2006

	Note	2005-06	2004-05
Net cash outflow from operating activities	19(a)	(57,548)	(57,531)
Capital expenditure and financial investment	19(b)	(2,965)	(2,797)
Payments of amount due to Consolidated Fund	19(e)	(2,420)	(4,107)
Surplus cash surrendered to Consolidated Fund	19(e)	-	(57)
Financing	19(d)	62,016	62,748
Increase/(decrease) in cash in the period	19(e)	(917)	(1,744)

The notes on pages 104 to 126 form part of these accounts

Consolidated Statement of Operating Costs by Departmental Aim and Objectives

CONSOLIDATED STATEMENT OF OPERATING COSTS BY DEPARTMENTAL AIM AND OBJECTIVES for the year ended 31 March 2006

	2005-06			Restated 2004-05		
	Gross	Income	Net	Gross	Income	Net
England Objectives						
Increase the contribution of forests and woodlands to local economies and rural development	36,531	(2,671)	33,860	36,756	(2,413)	34,343
Expand the role of woodlands in supporting the economic regeneration of former industrial land and disadvantaged communities	2,420	(414)	2,006	3,647	(1,363)	2,284
Promote public access to woods and forests and develop diverse recreational opportunities	15,271	(841)	14,430	12,404	(588)	11,816
Conserve and improve biodiversity, landscape and cultural heritage of our forests and woodlands	17,737	(2,401)	15,336	14,721	(1,612)	13,109
England Net Operating Costs	71,959	(6,327)	65,632	67,528	(5,976)	61,552
Great Britain Objective						
To take the lead in development and promotion of sustainable forest management and to support its achievement nationally	37,455	(23,086)	14,369	37,559	(24,669)	12,890
Great Britain Net Operating Costs	37,455	(23,086)	14,369	37,559	(24,669)	12,890
Great Britain/England Net Operating Costs	109,414	(29,413)	80,001	105,087	(30,645)	74,442

See note 20 for explanation of apportionments across objectives.

The notes on pages 104 to 126 form part of these accounts

1. STATEMENT OF ACCOUNTING POLICIES

These financial statements have been prepared in accordance with the 2005-06 Government Financial Reporting Manual (FReM) issued by HM Treasury. The accounting policies contained in the FReM follow UK generally accepted accounting practice for companies (UK GAAP) to the extent that it is meaningful and appropriate to the public sector.

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

Where the FReM permits a choice of accounting policy, the accounting policy which has been judged to be most appropriate to the particular circumstances of Forestry Commission Great Britain/England for the purpose of giving true and fair view has been selected. Forestry Commission Great Britain/England's accounting policies have been applied consistently in dealing with items considered material in relation to the accounts.

1.1 Accounting convention

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

1.2 Basis of preparation of accounts

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

1.3 Tangible fixed assets

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

Legal ownership of other tangible fixed assets, primarily office equipment, is vested in the Forestry Commissioners.

Land and buildings

Land and buildings were assessed as at 31 March 2002 in accordance with our policy of revaluing at three-yearly intervals by professionally qualified staff employed by the Forestry Commission following the principles set out in the RICS Red Book. Valuation was on the basis of Open Market Value or Existing Use Value as appropriate under the RICS guidance. From 1 April 2002,

land and buildings has been restated to current value annually using appropriate indices provided by the District Valuer.

Land and buildings were scheduled to be re-assessed as at 31 March 2005 in accordance with the three-yearly interval stated in the previous accounting policy. It has been decided, however, to bring the policy in line with UK GAAP and undertake a professional valuation of dwellings and other buildings on a five-yearly basis with a formal review in the third year. The first five-yearly valuation will be undertaken at 31 March 2008 to coincide with the next full revaluation of the Forest Estate.

In 2004-05, professionally qualified staff employed by the Commission carried out a review into the use of the indices provided by the District Valuer. The review concluded that use of the indices provided a reasonable restatement of the current value of land and buildings. The indices were therefore used to restate values as at 31 March 2006 and will be used in each year until the professional valuation at 31 March 2008.

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

Plant and machinery

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

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

Information technology (IT)

Information technology asset values are restated to current value each year using indices provided by the Office for National Statistics. The normal threshold for capitalisation of IT assets is £1,500. Items of IT, if treated singly would fall below the capitalisation threshold, but collectively represent a significant asset, are capitalised as a pooled asset.

Assets under construction

Assets under construction are carried at cost and are transferred to the appropriate fixed asset category when completed and ready for use.

1.4 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:

Land and buildings	-	up to 80 years
Plant and machinery	-	up to 20 years
IT	-	4 to 20 years

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

1.5 Intangible assets

Purchased software licences with an acquisition value of £5,000 or more are recognised as an intangible fixed asset. Assets are amortised over their expected useful economic life to

a maximum of seven years. Management carries out an annual review of software and expected economic lives.

1.6 Stocks and work in progress

Stocks and work in progress are valued as follows:

🌲 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;

🌲 work in progress is valued at the lower of cost, including appropriate overheads, and net realisable value;

🌲 consumable materials and supplies held for continuing use are valued at cost or, where materially different, current replacement costs, and at net realisable value only when they either cannot or will not be used.

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

1.7 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.

1.8 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.

1.9 Administrative and programme expenditure

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

1.10 Grants payable

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

1.11 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. Once grants become recognised, contributions from the EU are claimed. 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.

1.12 Capital charges

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

1.13 Value Added Tax (VAT)

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

1.14 Insurance

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

1.15 Pensions

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

elements on a systematic and rational basis over the period during which it benefits from employees' services by payment to the PCSPS of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the PCSPS. In respect of the defined contribution schemes, Forestry Commission Great Britain/England recognises the contributions payable for the year.

Further information on pensions is contained in the Remuneration Report and note 5 to the accounts.

1.16 Provisions

Forestry Commission Great Britain/England provides for legal or constructive obligations which are of uncertain timing or amount at the balance sheet date on the basis of the best estimate of the expenditure required to settle the obligation. Where the effect of the time value of money is significant, the estimated risk-adjusted cashflows are discounted using the real rate set by HM Treasury (currently 2.2%).

1.17 Operating leases

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

1.18 Contingent liabilities

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

Notes to the Resource Accounts

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

2. ANALYSIS OF NET RESOURCE OUTTURN BY SECTION

							2005-06 £000	2004-05 £000	
						Outturn	Estimate		
Admin	Other current	Grants	Gross resource Expenditure	A in A	Net Total	Net Total	Net Total Outturn compared with Estimate	Prior- year outturn	
Request for resources 1									
To implement the programmes of the England Forestry Strategy									
Forestry Commission England DEL	-	64,519	-	64,519	(3,112)	61,407	62,480	1,073	55,574
Forestry Commission England non-budget	-	2,012	-	2,012	-	2,012	2,012	-	-
Total	-	66,531	-	66,531	(3,112)	63,419	64,492	1,073	55,574
Request for resources 2									
To take the lead in development and promotion of sustainable forest management and to support its achievement nationally									
Forestry Commission Great Britain DEL	-	13,427	943	14,370	-	14,370	17,457	3,087	12,891
Total	-	13,427	943	14,370	-	14,370	17,457	3,087	12,891
Resource Outturn	-	79,958	943	80,901	(3,112)	77,789	81,949	4,160	68,465

Explanations of the variances are given in the Management Commentary.

Notes to the Resource Accounts

3. RECONCILIATION OF OUTTURN TO NET OPERATING COST AND AGAINST ADMINISTRATION BUDGET

3a. Reconciliation of net resource outturn to net operating cost

			2005-06 £000	2004-05 £000
	Note	Outturn	Supply Estimate	Outturn compared with Estimate
Net Resource Outturn	2	77,789	81,949	4,160
Forest Enterprise England depreciation		2,346	-	(2,346)
Forest Enterprise England net capital expenditure		(134)	-	134
Prior Period Adjustment		-	-	-
Non-supply income (CFERs)		-	-	-
Non-supply Expenditure		-	-	-
Net operating cost		80,001	81,949	1,948
				74,442

3b. Outturn against final Administration Budget

		2005-06 £000	2004-05 £000
	Budget	Outturn	Outturn
Gross Administration Budget	-	-	-
Income allowable against the Administration Budget	-	-	-
Net outturn against final Administration Budget	-	-	-

Notes to the Resource Accounts

4. RECONCILIATION OF RESOURCES TO CASH REQUIREMENT

	Note	Estimate £000	Outturn £000	Net total outturn compared with Estimate: saving/(excess) £000
Resource Outturn	2	81,949	77,789	4,160
Capital:				
• Acquisition of fixed assets	10/11	790	2,967	(2,177)
• Proceeds of fixed asset disposals		-	(2)	2
• Investments		-	-	-
Non-operating cost A in A:				
• Proceeds of fixed asset disposals		-	-	-
Accruals adjustments:				
• Non-cash items	6	(1,070)	(2,530)	1,460
• Changes in working capital other than cash		933	(33)	966
• Changes in creditors falling due after more than one year		-	-	-
• Use of provision	16	-	555	(555)
• Timing between accrual and cash VAT		-	(1,044)	1,044
• Non-cash inter-country transfers			11	(11)
Other adjustments:				
• Adjustment of FE net deficit to financing		(20,586)	(17,200)	(3,386)
Net cash requirement		62,016	60,513	1,503

Notes to the Resource Accounts

5. STAFF NUMBERS AND RELATED COSTS

5.1 Staff costs

Staff costs comprise:

	2005-06 £000			2004-05 £000
Forestry Commission England	Total	Permanently employed staff	Others	Total
Wages and salaries	4,875	4,875	-	4,582
Social security costs	392	392	-	369
Other pension costs	898	898	-	615
Agency staff	89	-	89	87
Inward secondments	34	-	34	-
Total net costs	6,288	6,165	123	5,653

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

Forestry Commission Great Britain

Wages and salaries	1,687	1,687	-	1,632
Social security costs	145	145	-	141
Other pension costs	313	313	-	213
Agency staff	1	-	1	-
Inward secondments	17	-	17	-
Total net costs	2,163	2,145	18	1,986

Forestry Commission Central Shared Services

Wages and salaries	6,853	6,853	-	7,132
Social security costs	540	540	-	559
Other pension costs	1,259	1,259	-	941
Agency staff	73	-	73	20
Inward secondments	-	-	-	40
Capitalised costs	(272)	(272)	-	(102)
Sub-total	8,453	8,380	73	8,590
Less recoveries in respect of outward secondments	(94)	(94)	-	(70)
Total net costs	8,359	8,286	73	8,520

Forest Research

Wages and salaries	7,090	7,090	-	6,955
Social security costs	547	547	-	539
Other pension costs	1,277	1,277	-	904
Agency staff	-	-	-	1
Total net costs	8,914	8,914	-	8,399

Forestry Commission Great Britain/England

Total costs per Operating Cost Statement	25,818	25,604	214	24,628
Less recoveries in respect of outward secondments	(94)	(94)	-	(70)
Total net costs	25,724	25,510	214	24,558

Notes to the Resource Accounts

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme but the Forestry Commission is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation (by Hewitt Bacon Woodrow) was carried out as at 31 March 2003. You can find details in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice-pensions.gov.uk).

For 2005-06, employers' contributions of £3,740,000 were payable to the PCSPS (2004-05 £2,663,000) at one of four rates in the range 16.2% to 24.6% (2004-05 12% and 18.5%) of pensionable pay, based on salary bands. The scheme's Actuary reviews employer contributions every four years following a full scheme valuation. From 2006-07, the salary bands will be revised and the rates will be in a range between 17.1% and 25.5%. The contribution rates reflect benefits accruing during 2005-06 to be paid when the member

retires, and not the benefits paid during this period to existing pensioners.

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employers' contributions of £5,800 were paid to one or more of a panel of three appointed stakeholder pension providers. Employer contributions are age-related and range from 3% to 12.5% of pensionable pay. Employers also match employee contributions up to 3% of pensionable pay. In addition, employer contributions of £730, 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.

5.2 Average number of persons employed

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

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

Objective	2005-06	Permanently-employed staff	Others	2004-05
	Number			Number
England	Total			Total
Increase the contribution of forests and woodlands to local economies and rural development	93	92	1	95
Expand the role of woodlands in supporting the economic regeneration of former industrial land and disadvantaged communities	5	5	-	5
Promote public access to woods and forests and develop diverse recreational opportunities	41	40	1	34
Conserve and improve the biodiversity, landscape and cultural heritage of our forests and woodlands	44	43	1	36
England Total	183	180	3	170
Great Britain				
To take the lead in development and promotion of sustainable forest management and to support its achievement nationally	579	576	3	592

Notes to the Resource Accounts

6. OTHER ADMINISTRATION COSTS

		2005-06 £000		2004-05 £000	
	Note	Core	Consolidated	Core	Consolidated
Rentals under operating leases:					
Hire of plant and machines		568	568	328	328
Other operating leases		2,010	2,010	2,024	2,024
Research and development expenditure					
		943	3,241	1,102	3,312
Non- cash items:					
Cost of capital		116	557	21	430
Notional audit fees – audit work		53	53	50	50
Notional audit fees – non-audit work		-	-	-	-
Depreciation		649	1,220	572	1,090
Impairment		63	63	(1)	(1)
(Gains)/Losses on disposal of assets		4	14	7	7
VME revaluation reserve write off		6	6	-	-
Provisions					
Provided in year	16	179	558	444	444
Provisions not required written back	16	(6)	(6)	(174)	(174)
Unwinding of discount	16	60	65	36	36
		1,124	2,530	955	1,882
Other expenditure					
Cost of shared services		16,753	5,026	13,285	4,894
Computer costs		1,951	1,951	2,189	2,189
Travel and subsistence		1,135	1,135	1,220	1,220
Accommodation		1,899	1,899	1,904	1,904
Telecommunication		1,279	1,279	989	989
Premature retirement costs		292	292	521	521
Postage		142	142	161	161
Losses and compensation		115	115	113	113
Other		2,422	1,103	6,796	2,953
Total		30,633	21,291	31,587	22,490

Other administration costs includes the cost of shared central services provided to Forestry Commission England. Six areas of work are identified as shared services:

- 🌲 Finance and accounting services
- 🌲 Information and communications technology
- 🌲 Human Resources, including forestry training services
- 🌲 Communications
- 🌲 Grants and licences
- 🌲 Operational support services

Notes to the Resource Accounts

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

Business units covering mechanical and civil engineering and nurseries charge for their services under service level agreements agreed with their own service board.

Expenditure is accounted for in each country at the time it was incurred.

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

7. PROGRAMME COSTS

	2005-06 £000		2004-05 £000	
	Core	Consolidated	Restated Core	Restated Consolidated
Support for forestry and the rural economy, including grants paid to private woodland owners	14,056	14,056	15,093	15,093
Grants paid to private woodland owners from EU receipts	3,746	3,746	4,907	4,907
Other programme costs, including research and publications	2,297	4,986	872	3,484
Sub-total	20,099	22,788	20,872	23,484
Forest Enterprise England funding	39,517	39,517	34,485	34,485
Total	59,616	62,305	55,357	57,969

2004-05 was the first year in the Newlands 1 economic regeneration scheme, a scheme involving a number of partners with the objective of restoring former industrial land by creating community woodlands. The accounting of the scheme has been revised in 2005-06 and the prior year figures adjusted to reflect the change in accounting. The impact on the 2004-05 net operating cost is nil but there is a reduction in both programme expenditure and income of £873,000.

Forestry Commission Great Britain/England programme costs include Forest Enterprise

England's deficit of £39,517,000 (2004-05 £34,485,000). After adjusting for non-cash transactions of £19,412,000 (2004-05 £17,713,000), Forest Enterprise received cash funding of £20,105,000 (2004-05 £16,772,000). To reconcile resource outturn to the net cash requirement in the Statement of Parliamentary Supply, the non-cash transactions are adjusted by Forest Enterprise England's net capital expenditure and depreciation to calculate the adjustment of Forest Enterprise England deficit to financing of £17,200,000 (2004-05 £11,736,000).

Notes to the Resource Accounts

	2005-06 £000	2004-05 £000
Capital		
Net capital	(134)	3,724
Accruals adjustments		
Cost of capital	15,905	14,690
Non cash items	978	627
Changes in working capital, including cash	2,316	(625)
Changes in provision	347	(703)
Total cash adjustments (note 19a)	19,412	17,713
Adjust supply expenditure for Forest Enterprise net capital	134	(3,724)
Adjust supply expenditure for Forest Enterprise depreciation	(2,346)	(2,253)
Adjustment of FE deficit to financing (Statement of Parliamentary Supply)	17,200	11,736

8. INCOME

			2005-06 £000	2004-05 £000 Restated Total
			Total	Total
Shared central service charges			19,242	20,915
Other			1,278	993
Operating income			20,520	21,908
	RfR1	RfR2	Total	Total
EU receipts	3,746	998	4,744	6,040
Other Income	2,095	2,054	4,149	2,697
Programme income	5,841	3,052	8,893	8,737
Total income	-	-	29,413	30,645

2004-05 was the first year in the Newlands 1 economic regeneration scheme, a scheme involving a number of partners with the objective of restoring former industrial land by creating community woodlands. The accounting of the scheme has been revised in 2005-06 and the prior year figures adjusted to reflect the change in accounting. The impact on the 2004-05 net operating cost is nil but there is a reduction in both programme income and expenditure of £873,000.

Operating income includes income received by shared central services from Scotland, Wales and Forest Enterprise England whereas the income from Forestry Commission England and Forest Research is excluded because these entities are inside the resource account boundary.

Notes to the Resource Accounts

9. ANALYSIS OF NET OPERATING COST BY SPENDING BODY

	Estimate	2005-06 £000 Outturn	2004-05 £000 Outturn
Forestry Commission Great Britain/England	81,949	80,001	74,442
Net Operating Cost	81,949	80,001	74,442

10. TANGIBLE FIXED ASSETS

	Land and Buildings £000	Plant and Machinery £000	IT £000	Payments on Account & Assets Under Construction £000	Total £000
Cost or valuation:					
At 1 April 2005	11,709	3,619	7,114	1,790	24,232
Additions	70	199	586	1,593	2,448
Transfers	(117)	24	86	(56)	(63)
Disposals	-	(1,109)	(698)	-	(1,807)
Revaluation to current prices	919	7	(34)	-	892
Impairment	-	(122)	(110)	-	(232)
At 31 March 2006	12,581	2,618	6,944	3,327	25,470
Depreciation:					
At 1 April 2005	1,009	2,403	5,562	-	8,974
Provided during year	263	158	524	-	945
Transfers	(11)	17	4	-	10
Disposals	-	(1,097)	(694)	-	(1,791)
Revaluation to current prices	54	5	(13)	-	46
Impairment	-	(122)	(47)	-	(169)
At 31 March 2006	1,315	1,364	5,336	-	8,015
Net Book Value at:					
31 March 2006	11,266	1,254	1,608	3,327	17,455
1 April 2005	10,700	1,216	1,552	1,790	15,258

ANALYSIS OF TANGIBLE FIXED ASSETS

The net book value of tangible fixed assets comprises:

Core 2006	1,215	22	1,284	3,327	5,848
Agency 2006	10,051	1,232	324	-	11,607
Core 2005	1,166	17	1,171	1,790	4,144
Agency 2005	9,534	1,199	381	-	11,114

Notes to the Resource Accounts

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

Land and buildings were scheduled to be re-assessed as at 31 March 2005 in accordance with the three-yearly interval stated in the previous accounting policy. It has been decided, however, to bring the policy in line with UK GAAP and undertake a professional valuation of land and buildings on a five-yearly basis with a formal review in the third year. The first five-yearly valuation will be undertaken at 31 March 2008 with annual updates in the intervening years based on indices provided by the District Valuer.

Plant and machinery were subject to a triennial revaluation as at 31 March 2005 by professionally qualified staff employed by the Forestry Commission. The next full revaluation is due as at 31 March 2008 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.

Information technology assets were restated to current value as at 31 March 2006 using an index provided by the Office for National Statistics.

11. INTANGIBLE FIXED ASSETS

Intangible fixed assets comprises of software licences.

	2005-06 £000	2004-05 £000
Cost or valuation:		
At 1 April 2005	1,599	1,023
Additions	519	576
Disposals	-	-
Transfers	(30)	-
Revaluation to current prices	(8)	-
At 31 March 2006	2,080	1,599
Amortisation:		
At 1 April 2005	248	
Provided during year	275	248
Disposals	-	-
Transfers	(3)	-
Revaluation to current prices	-	-
At 31 March 2006	520	248
Net Book Value at:		
31 March 2006	1,560	1,351
1 April 2005	1,351	1,023

ANALYSIS OF INTANGIBLE FIXED ASSETS

The net book value of intangible fixed assets comprises:

Core 2006	1,453	
Agency 2006	107	
Core 2005		1,301
Agency 2005		50

Notes to the Resource Accounts

12. STOCKS AND WORK IN PROGRESS

	2005-06 £000		2004-05 £000	
	Core	Consolidated	Core	Consolidated
Stocks	1,024	1,024	1,061	1,061
Raw materials and work in progress	-	1,286	-	462
Total	1,024	2,310	1,061	1,523

13. DEBTORS

13(a). Analysis by type

	2005-06 £000		2004-05 £000	
	Core	Consolidated	Core	Consolidated
Amounts falling due within one year:				
VAT	2,458	2,458	2,305	2,305
Trade debtors	1,311	1,836	1,988	3,163
Other debtors	52	75	84	92
Prepayments	826	996	612	813
	4,647	5,365	4,989	6,373

Amounts falling due after more than one year:

Other debtors	51	83	96	118
Total	51	83	96	118

13(b). Intra-Government Balances

	Amounts falling due within one year £000		Amounts falling due after more than one year £000	
	2005-06	2004-05	2005-06	2004-05
Balances with other central government bodies	3,054	2,657	-	-
Balances with local authorities	10	-	-	-
Balances with NHS Trusts	-	-	-	-
Balances with public corporations and trading funds	-	-	-	-
Intra-government balances	3,064	2,657	-	-
Balances with bodies external to government	2,301	3,716	83	118
Total debtors at 31 March	5,365	6,373	83	118

14. CASH AT BANK AND IN HAND

	2005-06 £000		2004-05 £000	
	Core	Consolidated	Core	Consolidated
Balance at 1 April	1,872	2,420	3,652	4,164
Net change in cash balances	(596)	(917)	(1,780)	(1,744)
Balance at 31 March	1,276	1,503	1,872	2,420
The following balances at 31 March are held at:				
Balance with Office of Paymaster General	1,276	1,276	1,872	1,872
Cash at commercial banks and cash in hand	-	227	-	548
Balance at 31 March	1,276	1,503	1,872	2,420
Amounts issued from the consolidated fund for supply but not spent at the year end	1,276	1,503	1,872	2,420

15. CREDITORS

15(a). Analysis by type

	2005-06 £000		2004-05 £000	
	Core	Consolidated	Core	Consolidated
Amounts falling due within one year:				
Other taxation and social security	1,955	1,955	2,050	2,050
Trade creditors	3,922	4,304	3,566	3,877
Other creditors	1,198	1,209	59	60
Accruals and deferred income	799	799	2,256	2,256
Payments received on account	-	50	-	297
Amounts issued from Westminster consolidated fund (supply) but not spent at year end	1,503	1,503	2,420	2,420
Total	9,377	9,820	10,351	10,960

Forest Enterprise England acts as co-ordinator for the Interreg Project which is funded by the European Union. The purpose of the Interreg Project is the promotion and guidance of recreation and conservation in forestry. The duties of co-ordinators include receiving EU funds on behalf of partners for onward transmission once work programmes have been approved. As third party assets these sums are not recorded on the face of these accounts. At 31 March 2006 the amount

held in Forestry Commission bank accounts on behalf of partners was 106,000 Euros. This has subsequently all been transferred to the partners concerned.

Amounts held in Forest Research bank accounts on behalf of partners in European Commission projects at 31 March 2006 was £27,000. This has subsequently all been transferred to the partners concerned.

Notes to the Resource Accounts

15(b). Intra-Government Balances

	Amounts falling due within one year £000		Amounts falling due after more than one year £000	
	2005-06	2004-05	2005-06	2004-05
Balances with other central government bodies	4,783	5,531	-	-
Balances with local authorities	299	-	-	-
Balances with NHS Trusts	-	-	-	-
Balances with public corporations and trading funds	15	-	-	-
Intra-government balances	5,097	5,531	-	-
Balances with bodies external to government	4,723	5,429	-	-
Total creditors at 31 March	9,820	10,960	-	-

16 PROVISION FOR LIABILITIES AND CHARGES

	Early Departure costs	
	Core £000	Consolidated £000
Balance at 1 April 2005	1,328	1,406
Provided in the year	179	558
Provisions not required written back	(6)	(6)
Utilised in the year	(536)	(555)
Unwinding of discount	60	65
Balance at 31 March 2006	1,025	1,468

Early departure costs

Forestry Commission Great Britain/England meets the additional costs of benefits beyond the normal PCSPS benefits in respect of employees who retire early by paying the required amounts annually to the PCSPS over the period between early departure and normal retirement date. Forestry Commission Great

Britain/England provides for this in full when the early retirement programme becomes binding by establishing a provision for the estimated payments discounted by the Treasury discount rate of 2.2% in real terms.

Notes to the Resource Accounts

17. GENERAL FUND

	2005-06 £000		2004-05 £000	
	Core	Consolidated	Core	Consolidated
Balance at 1 April	1,402	9,254	(1,971)	4,955
Net operating cost for the year	(79,651)	(80,001)	(74,415)	(74,442)
Net Parliamentary funding	62,554	62,016	62,341	62,748
Forest Enterprise England non-cash adjustments	19,412	19,412	17,713	17,713
Notional cost of capital	116	557	21	430
Transfer of fixed assets from/to other forestry bodies	6	(100)	-	113
Realised element of revaluation reserve	7	46	-	-
Timing between accrual and cash VAT	1,037	1,044	-	-
Non-cash inter-country services	(11)	(11)	83	107
Notional audit fees	53	53	50	50
Amounts issued from the Consolidated Fund for supply but not spent at year end	(1,503)	(1,503)	(2,420)	(2,420)
Balance at 31 March	3,422	10,767	1,402	9,254

18. REVALUATION RESERVE

	2005-06 £000		2004-05 £000	
	Core	Consolidated	Core	Consolidated
Balance at 1 April	382	5,423	336	4,973
Arising on revaluation during the year	94	838	46	450
Realised element of revaluation reserve	(7)	(46)	-	-
Write-off	6	6	-	-
Balance at 31 March	475	6,221	382	5,423

19. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

19(a). Reconciliation of operating cost to operating cash flows

	Note	2005-06	2004-05
		£000	£000
Net operating cost	9	80,001	74,442
Adjustments for non cash transactions	6	(2,530)	(1,882)
Timing between accrual and cash VAT		(1,044)	-
Non-cash inter-country services		11	(107)
Forest Enterprise England non-cash adjustments		(19,412)	(17,713)
Increase/(decrease) in stock		787	(40)
Increase/(decrease) in debtors		(1,043)	(153)
(Increase)/decrease in creditors		1,140	4,048
less movements in creditors relating to items not passing through OCS		(917)	(1,744)
Use of provisions	16	555	680
Net cash outflow from operating activities		57,548	57,531

Notes to the Resource Accounts

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

	Note	2005-06 £000	2004-05 £000
Tangible fixed assets additions	10	2,448	2,221
Intangible fixed assets additions	11	519	576
Proceeds of disposal of fixed assets		(2)	-
Loans to other bodies		-	-
Repayment of loans to other bodies		-	-
Net cash outflow from operating activities		2,965	2,797

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

	Capital expenditure £000	Loans £000	A in A £000	Net Total £000
Request for resource 1	79	-	-	79
Request for resource 2	2,886	-	-	2,886
Net movement in debtors/creditors	-	-	-	-
Total 2005-06	2,965	-	-	2,965
Total 2004-05	2,797	-	-	2,797

19(d). Analysis of financing

	Note	2005-06 £000	2004-05 £000
From the Consolidated Fund	17	62,016	62,748
Net financing		62,016	62,748

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

	Note	2005-06 £000	2004-05 £000
Net cash requirement		(60,513)	(60,328)
From the Consolidated Fund (Supply)	19(d)	62,016	62,748
Payment of amount due to Consolidated Fund		(2,420)	(4,107)
Surplus cash surrendered to Consolidated Fund		-	(57)
Increase/(decrease) in cash		(917)	(1,744)

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

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

21. CAPITAL COMMITMENTS

There were no contracted capital commitments at 31 March 2006.

22. COMMITMENTS UNDER OPERATING LEASES

Operating leases

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

	2005-06 £000		2004-05 £000	
	Core	Consolidated	Core	Consolidated
Building leases expiring within:				
One year	42	42	63	63
Two to five years	311	311	-	-
More than five years	1,650	1,650	1,961	1,961
Total	2,003	2,003	2,024	2,024
Other leases expiring within:				
One year	-	-	93	93
Two to five years	261	261	235	235
More than five years	10	10	-	-
Total	271	271	328	328

Notes to the Resource Accounts

23. OTHER FINANCIAL COMMITMENTS

Planting and replanting grants

Following approval of a management plan for planting proposals Forestry Commission England undertakes to pay planting grants in two instalments. Replanting grants are payable in one instalment. At 31 March 2006, Forestry Commission England was committed under draft and signed contracts to the payment of future instalments of planting and replanting grants amounting to £20 million (2004-05 - £12.3 million signed contracts).

Existing woodlands

Grants for the management of existing woodlands are payable annually in arrears during the 5-year currency of an approved plan, provided specific objectives are met.

Grants, which support capital investment work to improve public benefits from woodlands, including planning grants, are usually payable in one instalment. Forestry Commission England was committed under draft and signed contracts to the payment of future instalments of grants which support existing woodlands amounting to £11.9 million at 31 March 2006 (2004-05 - £18 million signed contracts).

24. CONTINGENT LIABILITIES

There were no contingent liabilities as at 31 March 2006 (£nil at 31 March 2005).

25. LOSSES AND SPECIAL PAYMENTS

	Number	2005-06 £000	Number	2004-05 £000
Losses total	75	196	22	44
Special payments total	25	23	23	25

26. RELATED PARTY TRANSACTIONS

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

In addition, Forestry Commission Great Britain/England has had various material transactions with other government departments and other central government bodies. The main entities within government

with which the Forestry Commission has had dealings are H M Treasury, UK Co-ordinating Body, the Paymaster General's Office, HM Revenue and Customs, the Department for the Environment, Food and Rural Affairs, the Office of the Deputy Prime Minister, the North West Development Agency and Yorkshire Forward.

The husband of Judith Webb, a non-executive member of the National Committee for England, received a Woodland Grant of £420.

In the year to 31 March 2006, Forest Enterprise England entered into material transactions involving Martin Gale, a non-executive Forestry Commissioner. At 31 March 2006, Martin Gale was Chairman of Tilhill Forestry and Vice President, International Forestry, UPM-Kymmene Corporation. UPM-Kymmene is the parent company of Shotton Paper, Caledonian Paper and Tilhill Forestry Ltd. Tilhill Forestry has an interest in BSW Timber plc.

The value of purchases from Forest Enterprise England was:

BSW Timber plc	£1,501,000
Tilhill Forestry	£1,089,000

Amounts owing to Forest Enterprise England at 31 March 2006 were:

BSW Timber plc	£231,000
Tilhill Forestry	£36,000

Professor Jim Lynch, Chief Executive of Forest Research, is distinguished Professor of Life Sciences at the University of Surrey. The value of payments to the University for services provided in the year to 31 March 2006 was £48,000. Sam Evans and Peter Freer-Smith hold visiting professorships at the Universities of Sheffield and Southampton respectively, with which £12,000 and £7,000 was spent on research services. Other members of staff hold professorships at UK and foreign universities but no financial transactions took place with these in 2005-06.

27. FINANCIAL INSTRUMENTS

FRS 13, Derivatives and Other Financial Instruments, requires disclosure of the role

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

As permitted by FRS 13, debtors and creditors which mature and become payable within 12 months from the balance sheet date have been omitted from the liquidity profile.

Liquidity risk

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

Interest-rate risk

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

Notes to the Resource Accounts

Foreign currency risk

Forestry Commission 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 14. Fair value for the provisions shown in Note 16 is not significantly different from book value since, in the calculation of book value, the expected cash flows have been discounted by the Treasury rate of 3.5% in real terms.

28. ENTITIES WITHIN THE DEPARTMENTAL BOUNDARY

The entities within the boundary during 2005-06 were as follows:

a. Supply-financed agencies:

Forest Research Agency, which incurred a net deficit of £350,000.

b. Non-executive NDPBs:

None

c. Other entities:

None

The annual reports and accounts of the Forest Research Agency are published separately.

Accounts Direction

Given by the Treasury

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

This direction applies to those government departments and pension schemes listed in the attached appendix.*

These departments and pension schemes shall prepare resource accounts for the year ended 31 March 2006 in compliance with the accounting principles and disclosure requirements of the edition of the Government Financial Reporting Manual issued by H M Treasury (the FReM) which is in force for 2005-06.

The accounts for government departments shall be prepared so as to:

give a true and fair view of the state of affairs at 31 March 2006 and of the net resource outturn, resources applied to objectives, recognised gains and losses and cash flows for the financial year then ended; and

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.

The accounts for pension schemes shall be prepared so as to:

give a true and fair view of the state of affairs at 31 March 2006 and of the net resource outturn and cash flows for the financial year then ended; and

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.

Compliance with the requirements of the FReM will, in all but exceptional circumstances, be necessary for the accounts to give a true and fair view. If, in these exceptional circumstances, compliance with the requirements of the FReM is inconsistent with the requirement to give a true and fair view, the requirements of the FReM should be departed from only to the extent necessary to give a true and fair view. In such cases, informed and unbiased judgement should be used to devise an appropriate alternative treatment which should be consistent with both the economic characteristics of the circumstances concerned and the spirit of the FReM. Any material departure from the FReM should be discussed in the first instance with the Treasury.

David Cruden FCA
Head of Central Accountancy Team,
Her Majesty's Treasury
13 January 2006

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

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INTRODUCTION AND BACKGROUND

BASIS OF ACCOUNTS

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

DEPARTMENTAL ACCOUNTING BOUNDARY

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

NATURE OF THE BUSINESS, ITS STRATEGY, AIMS AND OBJECTIVES

Status

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






Strategy

The overall purpose of the agency is to manage the national forest estate, owned by the Secretary of State for Environment, Food and Rural Affairs, to deliver the economic, environmental and social objectives of the England Forestry Strategy.

Aims and Objectives

The aims and objectives of Forest Enterprise England are described in the Framework Document published in April 2003 and available on the Forestry Commission website at www.forestry.gov.uk. They are designed to assist Forestry Commission England to achieve its overall aim of protecting and expanding England's woodlands and increasing their value to society and the environment.

The key objectives are:

-  To manage the estate in accordance with the principles of sustainable forest management as set out in the UK Forestry Standard (Sustainable forest management);
-  To increase the contribution of the estate to the rural economy (Economic);
-  To conserve and enhance the biological diversity, landscape and cultural heritage of the estate (Environmental);
-  To promote public access to the estate and develop diverse recreational opportunities (Social);
-  To expand the role of the estate in improving the environment of disadvantaged communities and bringing brown field land into beneficial public use (Social).

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MANAGEMENT COMMENTARY

Operating review

2005-06 was a successful year for the Agency. Events that impacted Forest Enterprise England during the year included:

🌲 The timber market was buoyant throughout the year with good levels of demand and a steady increase in unit prices which levelled off towards the end of the year as increased energy prices began to impact. The volume target for dispatches was exceeded at 1,510,000 cubic metres against a budgeted 1,470,000 cubic metres. Income amounted to £18.7 million against a planned £17.0 million.

🌲 Mid 2004 saw the launch of the first Forestry Commission electronic timber sale through its own electronic tender system. The package was well received by customers and is now our main method of selling timber in Forest Enterprise England.

🌲 Severe gales buffeted northern England in January 2005 and a significant part of the year's harvesting programme in the Lake District centred around the clearing of windblown timber. This task began with clearance of our key public access areas and progressed across affected woodlands to completion in March 2006.

🌲 The announcement of the closure of the St Regis Paper Mill in February 2006 had a severe and immediate impact on the management of broadleaved woodland. For many years the plant had supported the thinning of these woodlands by providing a market for small diameter and lower quality material. Our immediate task was to

support the fragile harvesting, marketing and haulage infrastructure and then to move on to work with others to seek and develop new market opportunities.

🌲 Countryside and Rights of Way Act (CRoW). The whole of the freehold estate was scrutinised for Dedication under the CRoW Act and 140,000 hectares has been dedicated. Further dedications will follow subject to third party consents. The New Forest is already mapped as access land under the Law of Property Act.

🌲 Liability claims were a vastly reduced concern this year compared to last resulting in a total expenditure of £144,000. Out of this expenditure, £100,000 was recovered at the court's direction from the successful defence of a major cycling claim together with a further £95,000 recovered from expenses incurred in 2004-05.

Significant projects taken forward during the year included:

🌲 The construction of a new £2.6 million visitor centre at Dalby Forest in the North York Moors, together with the £846,000 redevelopment of Dalby Courtyard into a mixture of offices, workshop units, shops, and community rooms. A new car park and 55km of mixed ability cycle routes have also been constructed at a cost of £671,000. The funding is from a mix of Yorkshire Forward, European Regional Development Fund (ERDF) and other bodies, with some match funding from Forest Enterprise England. The site is expected to be fully operational by December 2006.

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🌲 UK Woodland Assurance Standard (UKWAS) certification. The annual independent surveillance audit was completed at West Midlands and North West England forest districts. Our timber and venison will continue to carry the Forest Stewardship Council (FSC) logo which confirms that the exacting requirements both of UKWAS and the FSC are being met.

🌲 The construction of a new £808,000 visitor centre at Bedgebury Pinetum in Kent with funding from Sport England, Interreg and other bodies, with some match funding from Forest Enterprise England. The project, with a total cost of £1.89 million, will also provide play and all-ability trails, a family cycle trail, a single track mountain bike trail and a skills area and facilities for horse riding, all within the forest. Total length of new cycle trails is 27km. The site will be open from Easter 2006. The project has been taken forward as part of Sport England's Active England programme to make the nation more active

🌲 The construction of a new activity hub at Haldon Forest Park, near Exeter. This project has been principally funded by Sport England as part of their Active England programme. Total cost of the project is £1.4 million. The project delivers an all-ability trail, a play trail, a family cycling route and a single track mountain bike trail and skills area. Total length of new trails is 40km. In addition a redundant building at Haldon has been refurbished to become 'The Centre for Contemporary Art in the Natural Environment'. The Centre, an innovative charity which has the support of

Arts Council England, has adapted an existing building as a project space using it as a base for exhibitions, live events, artist residencies and workshops. At Wistlandpound Reservoir in North Devon, we have created an innovative fitness trail through the forest in partnership with the Calvert Trust. This is the first of its kind in the country, designed by a specialist company and caters for all levels of physical and mental disability. It has been funded by £100,000 from Sport England's Active England programme.

🌲 2005-06 was the second full delivery year of the £23 million Newlands 1 economic regeneration scheme, funded by the North West Development Agency (NWD) and covering Merseyside, Greater Manchester and North Cheshire. Managed by Forestry Commission England, the scheme is being delivered in partnership with the Community Forests, Groundwork and others like BTCV. The scheme will lead to the restoration of 435 hectares of former industrial land by creating community woodlands to form attractive settings to attract and maintain economic investment. Delivery moved ahead strongly during the year with the completion of tree planting and construction of the access infrastructure on the first two inner-city sites at Moston Vale in Manchester and Bidston Moss at Birkenhead.

🌲 The Agency continues to work closely with the Office of the Deputy Prime Minister (ODPM) in delivery of their Sustainable Communities Plan with a key delivery role marked out in their Greening the Gateway Implementation Plan. A major step forward

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was the purchase of Jeskyns Farm in March 2005 in partnership with ODPM. Jeskyns, a 147 hectares arable farm, is a key development in ODPM's 'Greening Thames Gateway' programme and work has continued through 2005-06 to convert the site to community woodland.

🌲 Salcey Forest, between Milton Keynes and Northampton, has successfully attracted ODPM funding for a large scale recreation and conservation project to refurbish existing, and provide additional, recreation facilities. This included an innovative tree top walk, which was completed in 2005-06 at a cost of £750,000 as the southern gateway to the River Nene Regional Park.

🌲 The first three sites in South Yorkshire were transferred over to the Land Restoration Trust (LRT) following their restoration to community woodland. The sites will be managed by the Forestry Commission, on behalf of the LRT, with the costs being paid for out of the dowries supplied by English Partnerships. A further 3 sites will be transferred over the next year giving a total in excess of 500 hectares that has been restored for the public to use and enjoy. These sites will be managed in partnership with other organisations such as Groundwork which will help to maximise the diversity of uses that these sites are capable of.

🌲 Following a Stage 1 pass from the Heritage Lottery Fund (HLF) awarded in March 2005, we have employed a project manager and completed the detailed planning of the Neroche Scheme. Located in the Blackdown Hills in Somerset and covering

a total area of 20,000 hectares, Forest Enterprise England is the lead partner in this groundbreaking landscape conservation scheme. A final decision on this £3 million scheme is due from the HLF in August 2006. The Neroche Scheme has brought together 16 partner organisations and the local community. If the HLF Stage 2 application is successful, the scheme will deliver major habitat restoration in the public forest with the introduction of native cattle, expanded forest schools provision, extensive public access for all, ancient monument restoration, the delivery of a forestry apprenticeship scheme, and a comprehensive interpretation and volunteering programme. The innovative approach taken throughout the Neroche Scheme has generated considerable national interest from a wide variety of conservation and land management organisations.

🌲 Work has continued to set up the supply arrangements for the Wilton 10 wood energy project being developed at Teesside by Sembcorp Utilities. Forest Enterprise England will be supplying 50,000 tonnes of roundwood per annum from Kielder and North York Moors forest districts as part of the raw material requirement for the project which will generate 30 megawatts of electricity.

🌲 Active Woods is a Great Britain campaign to raise awareness of the value of outdoor activity in woodlands. A high percentage of the 1,000 events that forest districts run per annum within England have been actively marketed as part of the Active Woods campaign.

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🌲 The Forest Tour 2005 featured Madness and Beautiful South playing successive nights at six forest venues. In addition, Daniel Bedingfield and Ian Brown played second weekends at Delamere and Thetford. The concert tour played to just under 100,000 people, many of whom were visiting for the first time.

Financial review

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

Forest Enterprise England incurred a deficit on its Income and Expenditure Account, before cost of capital, of £23.6 million (2004-05 £19.8 million). The operating deficit increased by £1.5 million. The key factors are described below:

- 🌲 We fully met our marketing and sales plans, dispatching 1,510,000 cubic metres of timber with a value of £18.7 million.
- 🌲 £2.1 million was raised from property sales. This comprised £1.7 million from building disposals, and £0.4 million from woodland rationalisation sales.
- 🌲 Acquisitions totalled 108 hectares. These included 25 hectares in the National Forest, 79 hectares in the Newlands project, and 5 hectares at Delamere. In addition 68 hectares of leasehold in South East England was converted to unrestricted freehold through acquisition.
- 🌲 The net cost of recreation, conservation and heritage was £13.8 million. The

increase of £2.2 million reflected an increase in partnership projects and an increase in staff resource applied to delivering our important social and community policies.

- 🌲 The value of the forest estate and other land increased by £27 million using indices and there were additions of £3.1 million. Building assets were revalued upwards by £2.8 million using information provided by the District Valuer and buildings under construction at the year end amounted to £3.6 million. The main projects being taken forward are the visitor centres at Dalby in the North York Moors and Bedgebury in Kent, capital works at Sherwood and Northants district offices, and building works at Westonbirt Arboretum. These projects are being taken forward with the assistance of external funding.

After adjusting the total deficit for items not involving the movement in cash and for capital expenditure and receipts, the net cash funding received from Forestry Commission England was £20.1 million (2004-05 £16.8 million).

Future Events

Post-Balance Sheet Event

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

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business together with the necessary skills and vision to grow the business.

Until very recently, the Forestry Commission had no express power to hold shares in a limited company or to hold interest in a LLP. Therefore, in respect of the activities carried on by the Forestry Commission in England and Wales, the Forestry Commission undertook to seek an Order under the Regulatory Reform Act 2001 in order to permit the Forestry Commission to participate in the new entity. The Order was granted on 15 March 2006. However, as the Regulatory Reform Act does not apply to matters which are within the legislative competence of the Scottish Parliament the grant of the Order does not affect the powers of the Forestry Commission in or as regards Scotland. Therefore, the Forestry Commission still does not have the necessary powers to participate in any company or LLP which has Scottish assets, or which carries on business in Scotland. The Forestry Commission is seeking primary legislation in the Scottish Parliament which would give the Forestry Commission the necessary powers to enter into the joint venture in respect of the Scottish sites. In the meantime, Scottish Ministers have approved a separate LLP in Scotland in which Scottish Ministers will act as a member and hold the public sector interest, in place of the Forestry Commission, until the Forestry Commission obtains the necessary powers.

Following the transfer of the Forest Holidays business, there will be a significant change to the way in which the Forestry Commission will account for its interest in Forest Holidays. As lessors of the sites to the joint venture, Forest Enterprise England will show a long term

debtor balance on its balance sheet to represent the net present value of the future rental payments due by the joint venture companies. The Forestry Commission's equity and loan stock investments in the joint venture will be shown separately on the balance sheet of Forest Enterprise England, representing their current value to the Forestry Commission.

Forest Enterprise England will transfer about £536,000 of income received in advance for holidays commencing on or after 8 May 2006 that belongs to the LLP. All Forest Holidays' operations will in future be undertaken by the Joint Venture and Forest Enterprise England will account for its share of the Joint Venture's profits and assets and liabilities in accordance with Financial Reporting Standard 9.

Future work

There are a number of events that are likely to impact the work for Forest Enterprise England in 2006-07 and future years:

- 📌 Timber processors are facing a number of pressures, particularly from increased energy costs but it is hoped that the recovery in timber prices can be maintained. The closure of the St Regis Paper Mill will impact on our ability to undertake thinning of broadleaved woodland but this will not impact significantly on overall income as values are low. This activity does however have other strong links to biodiversity and amenity values and work on developing alternative markets will be a priority. Potential threats to the overall income position are the possible loss of one or more timber processors through business failure or fire

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or impacts from the wider European or global timber market.

- There continues to be significant investment in the timber processing sector and a number of significant wood energy projects are now moving closer to completion. It is hoped that these will contribute to a competitive market, but it will remain important to work with all parts of the processing sector.

A number of major projects are planned for next year and beyond:

- We will continue our work on the Newlands Project. This will involve taking further major sites through the acquisition, planning and consultation phase and beginning their implementation. We will also be working to ensure that the Moston Vale and Bidston Moss sites are closely connected with their communities and delivering a wide range of public benefits.
- The main aim of the work in the Thames Gateway will be to continue delivering the Jeskyns greenspace project, with the majority of work taking place during financial year 2006-07, and initiation and delivery of the Ingrebourne Valley project. ODPM has offered in principal £1 million of funding towards the restoration of Ingrebourne Valley (Rainham, London Borough of Havering), a former privately operated gravel extraction and more recently land fill site. The success of the project will depend on an agreement on current negotiations between Forest Enterprise England and the operator over long term ownership and liabilities.

- Forest Enterprise England will continue to work within the Thames Gateway and seek to be included within the relevant delivery partnerships. Where opportunities arise, these will be brought to the attention of ODPM on the basis of seeking funding to further deliver against their Sustainable Communities Plan.

- We will commence a two year programme for which an additional £1 million per year of funding has been provided by DEFRA to improve the condition of a wide range of SSSIs on the Forestry Commission estate across England.

- The Forestry Commission has participated in a national bid to the Big Lottery Fund under their Changing Spaces programme. The "Access to the Natural Environment Consortium" brings together twelve national statutory and voluntary organisations from the environment sector to collectively pool their skills in a proposal to spend some £90 million split across all Government regions in England. Working with regional colleagues, the proposals focus on using an enhanced natural environment to enrich people's lives and engage with disadvantaged communities.

- The Forestry Commission in the Regions has brought the combined skills of conservancy offices, forest districts and the community forests together to build projects, which emulate the ambition and structure of the "Newlands" project. Generic regional business plans aim to provide community outreach, site habitat and infrastructure enhancements and shared activities to specified urban fringe

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areas adjacent to some of the country's most deprived communities.

🌲 Fineshade Woods, between Corby and Peterborough, has been awarded £950,000 of ODPM funding for development of a new recreation and cultural heritage centre for Rockingham Forest. The centre will provide a new focus for the Ancient Woodland Project and the Red Kites @ Rockingham Project in partnership with the RSPB and the Rockingham Forest Craft Guild. The project will become the northern gateway to the River Nene Regional Park.

🌲 Working in partnership with Yorkshire Forward and South Yorkshire Forest Partnership, a 55 ha farm is to be bought and converted into Community woodland. This land, which is on the outskirts of Barnsley, will be a significant contribution to South Yorkshire's drive to improve biodiversity and increase the amount of land available for public access. This £2 million project will be principally funded by the Rural Development Agency as well as attracting European funding. The Forestry Commission will be the long term owners and managers of this new community woodland.

Details of all other developments and commitments are shown in the Forestry Commission England Corporate Plan available on the internet at <http://forestry.gov.uk/england>.

MANAGEMENT

Management Board

The Agency Management Board gives strategic direction and leadership to the forest districts within England. The membership for 2005-06 was:

Simon Hodgson*	Chief Executive (from 29 September 2005)
Rod Leslie*	Head of Sustainability, and Acting Chief Executive (until 14 September 2005)
Brian Mahony	Head of Sustainable Forestry and Land Management
Mark Thornycroft	Head of Estates
James Swabey	Head of Recreation and Public Affairs
Peter Ranken	Head of Recreation and Development (until 31 July 2005)
Michael Seddon	Deputy Surveyor New Forest (from 1 April 2005)
Ken Milsom	Human Resources Manager
Steve Meeks	Finance Manager
Jo O'Hara	Planning Manager

*Member of the Forestry Commission National Committee for England and/or the Forestry Commission England Management Board.

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

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Forestry Commissioners and Permanent Head of the Department

The Board of Commissioners gives strategic direction to the Forestry Commission and takes decisions on not-devolved or co-ordinated functions. It has a part time non-executive Chairman, Rt Hon Lord Clark of Windermere, and the Director General, Tim Rollinson, as Permanent Head of the Department, acts as Deputy Chairman. Commissioners who served during the year are available in the Great Britain/England Annual Report and Accounts.

OTHER DISCLOSURES

Research and Development

Forest Research, an executive agency of the Forestry Commission, is responsible for carrying out forest research and allied work. Forest Enterprise England 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.

Pensions

Information on pensions is contained in the Remuneration Report and accounting policy note 1.13.

Supplier Payment Policy

Forest Enterprise England complies with the Government's Better Payment Practice Code. Unless otherwise stated in the contract, we aim to pay within 30 days from the receipt of goods and services or the presentation of a valid invoice, whichever is the later. A sample analysis for 2005-06 indicates that 97.2% 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.

Employment Policies

The Forestry Commission values and respects its staff by treating each member with respect and trust and in doing so recognises that each person is different and can make a unique contribution to the work. The purpose of the Forestry Commission employment policy is to demonstrate that it is an equal opportunity employer and the aim is to be fair to everybody. To do this the Forestry Commission ensures that no eligible job applicant, or employee receives less favourable treatment on the grounds of their gender, or gender re-assignment, ethnic origin, disability, age, nationality, national origin, sexual orientation, marital status, religion and religious or philosophical belief, social class or offending background.

All employees, whether part-time, full time or temporary will be treated fairly and equally. Selection for employment, promotion or training or any other benefit will be on the basis of aptitude and ability. All employees will be helped and encouraged to develop their full potential and the talents and resources of the workforce will be fully utilised to maximise the efficiency of the organisation. No person shall be disadvantaged by conditions or requirements which cannot be shown to be justifiable.

The Forestry Commission also follows good employer practices aimed at ensuring that all staff work in an environment free from both illegal and unfair discrimination and harassment. Consolidated statements of the

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Commission's obligations with regard to equality of opportunity and diversity are shown in the Staff Handbook. Full details of these initiatives arising from the policies are also set out in the Human Resources intranet site.

The Forestry Commission will monitor the success of its policies by:-

- ♣ Collecting and analysing data as appropriate.
- ♣ Regularly reviewing procedures (recruitment, performance management, promotion and pay) to ensure that they are free of unfair discrimination.
- ♣ Reporting the results of equality and diversity monitoring to the Human Resources Management Sub-Committee on an annual basis.
- ♣ Liaising closely with Cabinet Office and other government departments to ensure that we are keeping abreast of all changes in legislation and other developments.

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 Human Resources unit of the Forestry Commission.

Auditors

These accounts are audited by the Comptroller and Auditor General.

Disclosure of audit information to the auditors

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

Simon Hodgson
Accounting Officer
13 July 2006

REMUNERATION POLICY

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

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

🌲 The Senior Pay Committee take into account the recommendations of the Senior Salaries Review Body (SSRB). SSRB is responsible for monitoring the operation of the Senior Civil Service pay system and for making recommendations to the Government on the shape of the system, including the salary values for the minimum, progression target rate and maximum of each of the senior pay bands, the range of percentage increases to base salary and range of bonuses.

🌲 Reporting Officers consider the relative performance of each of their senior staff and recommend an appropriate performance tranche, whether a bonus should be paid and if so whether low or high. The Senior Pay Committee consider the recommendations, determine the allocation of senior staff to tranches, and decide the percentage increase to salary and any bonus to be awarded.

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

EMPLOYMENT CONTRACTS

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

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

Further information about the work of the Civil Service Commissioners can be found at www.civilservicecommissioners.gov.uk.

Remuneration Report

SALARY AND PENSION ENTITLEMENTS

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

	2005-06		2004-05	
	Salary £000	Benefits in kind £100	Salary £000	Benefits in kind £100
Simon Hodgson (from 29 September 2005)	35-40 (70-75 full year equivalent)	-	-	-
Rod Leslie	60-65	-	55-60	-
Brian Mahony	55-60	-	55-60	-
Mark Thornycroft	50-55	-	50-55	-
James Swabey	45-50	-	40-45	-
Peter Ranken (until 31 July 2005)	20-25 (65-70 full year equivalent)	-	65-70	-
Michael Seddon	45-50	-	45-50	-
Ken Milsom	45-50	-	50-55	-
Steve Meeks	45-50	-	40-45	-
Jo O'Hara	35-40	-	30-35	-

SALARY

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

BENEFITS IN KIND

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

PENSION BENEFITS

	Accrued pension at age 60 at 31 March 2006 and related lump sum £000	Real increase in pension and related lump sum at age 60 £000	CETV at 31 March 2006	CETV at 31 March 2005	Real increase in CETV	Employer contribution to partnership pension account Nearest £100
Simon Hodgson	10-15 plus LS of 30-35	0-2.5 plus LS of 2.5-5.0	208	143	23	-
Peter Ranken	30-35 plus LS of 90-95	0-2.5 plus LS of 2.5-5.0	602	463	18	-
Rod Leslie	20-25 plus LS of 65-70	0-2.5 plus LS of 2.5-5.0	435	321	26	-
Brian Mahony	15-20 plus LS of 45-50	0-2.5 plus LS of 0-2.5	347	257	14	-
Mark Thornycroft	10-15 plus LS of 40-45	0-2.5 plus LS of 2.5-5.0	312	237	18	-
Ken Milsom	20-25 plus LS of 65-70	0-2.5 plus LS of 0-2.5	378	280	9	-
Steve Meeks	10-15 plus LS of 40-45	0-2.5 plus LS of 0-2.5	224	159	11	-
Michael Seddon	5-10 plus LS of 25-30	0-2.5 plus LS of 0-2.5	124	80	9	-
James Swabey	20-25 plus LS 0-5	0-2.5 plus LS of 0-2.5	319	232	19	-
Jo O'Hara	5-10 plus LS of 20-25	0-2.5 plus LS of 0-2.5	101	65	9	-

CIVIL SERVICE PENSIONS

Pension benefits are provided through the Civil Service Pension arrangements. From 1 October 2002, civil servants may be in one of three statutory based 'final salary' defined benefit schemes (classic, premium, and classic plus). The schemes are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under classic, premium, and classic plus are increased annually in line with changes in the Retail Prices Index. New entrants after 1 October 2002 may choose between membership of premium or joining a good quality 'money purchase' stakeholder arrangement with a significant employer contribution (partnership pension account).

Employee contributions are set at the rate of 1.5% of pensionable earnings for classic and 3.5% for premium and classic plus. Benefits in classic accrue at the rate of 1/80th of pensionable salary for each year of service. In addition, a lump sum equivalent to three years' pension is payable on retirement. For premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum (but members may give up (commute) some of their pension to provide a lump sum). Classic plus is essentially a variation of premium, but with benefits in respect of service before 1 October 2002 calculated broadly as per classic.

The partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3% and 12.5% (depending on the age of the member) into a stakeholder pension product chosen by the employee from a selection of approved products. The employee does not have to contribute but where they do make contributions, the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.8% of pensionable salary to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement).

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

CASH EQUIVALENT TRANSFER VALUES

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies. The CETV figures, and from 2003-04 the other pension details, include the value of any pension benefit in another scheme or

arrangement which the individual has transferred to the Civil Service pension arrangements and for which the CS Vote has received a transfer payment commensurate with the additional pension liabilities being assumed. They also include any additional pension benefit accrued to the member as a result of their purchasing additional years of pension service in the scheme at their own cost. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

Please note that the factors used to calculate the CETV were revised on 1 April 2005 on the advice of the Scheme Actuary. The CETV figure for 31 March 2005 has been restated using the new factors so that it is calculated on the same basis as the CETV figure for 31 March 2006.

REAL INCREASE IN CETV

This reflects the increase in CETV effectively funded by the employer. It takes account of the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

Simon Hodgson
Accounting Officer
13 July 2006

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 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 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 issued by H M Treasury, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
 - 🌲 make judgements and estimates on a reasonable basis;
 - 🌲 state whether applicable accounting standards 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 England will continue in operation.
3. Director, Forestry Commission England as the Additional Accounting Officer for Forestry Commission England has designated the Chief Executive as the Agency Accounting Officer. His relevant responsibilities as Agency Accounting Officer, including his responsibility for the propriety and regularity for the public finances, for the keeping of proper records and for safeguarding Forest Enterprise England's assets, are set out in the Accounting Officers' Memorandum, issued by the Treasury and published in "Government Accounting". Under the terms of the Accounting Officers' Memorandum, the relationship between Director, Forestry Commission England and the Agency Accounting Officer, together with their respective responsibilities, is set out in writing.

Statement on Internal Control

1. SCOPE OF RESPONSIBILITY

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

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

The Forestry Commissioners are statutorily responsible for the stewardship of the estate placed at their disposal by Ministers. The Forestry Commissioners have delegated to the statutory National Committee for England, the normal exercise of their powers and duties in connection with the estate. In turn, the National Committee has delegated management of the estate to the Agency. The National Committee in England is chaired by a non-executive Forestry Commissioner and its members include a further two non-executive Commissioners, the Director England, the Agency Chief Executive, a member from the Department for Environment, Food and Rural Affairs, Finance Director, Head of Programme Group and two non-executive members.

The Director General is the Deputy Chairman of the Forestry Commissioners and the senior official in the Forestry Commission. In addition to his role as a Commissioner, he is the Principal Accounting Officer, formally responsible to the Westminster Parliament for the financial affairs of the Forestry Commission, including the Agency. In practice, the Director General's role in relation to the Agency is delegated to Director England as Additional Accounting Officer.

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

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

National Committee and is designated as Agency Accounting Officer, responsible for the Agency's accounts and financial procedures and for the proper, effective and efficient use of resources provided to the Agency within the terms of the Framework Document and in pursuit of the agreed objectives and targets. In particular, the Agency Chief Executive is responsible for:

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

The Director General, Director England and Agency Chief Executive are liable to be summoned to appear before the Public Accounts Committee to answer for their respective responsibilities. It will be for Ministers to decide who should represent them at other Parliamentary Committee hearings. In practice, where a Committee's interest is confined to the day-to-day operations of the Agency, Ministers will normally regard the Chief Executive as the person best placed to appear on their behalf.

2. THE PURPOSE OF THE SYSTEM OF INTERNAL CONTROL

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of Forest Enterprise England policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in Forest Enterprise England for the year ended 31 March 2006 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

3. CAPACITY TO HANDLE RISK

Risk management is the responsibility of every member of staff in Forest Enterprise England. Everyone has a role to play in managing risks and therefore understands and accepts responsibility for managing the risks within their own area of authority. Risk awareness and responsibility lies in parallel with the structure of Forest Enterprise England's objectives and at every level of objective there is equivalent delegation of responsibility of associated risk.

The resources available for managing risk are finite and so the aim is to achieve an optimum response to risk, prioritised in accordance with the evaluation of risk. The system of internal control incorporates risk management. The system encompasses a number of elements that together facilitate an effective and

Statement on Internal Control

efficient operation, enabling Forest Enterprise England to respond to a variety of operational, financial and commercial risks. These elements include:

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

4. THE RISK AND CONTROL FRAMEWORK

Forest Enterprise England is committed to a process of continuous development and improvement: developing systems in response to any relevant reviews and developments in best practice in this area. In particular, in the period covering the year to 31 March 2006 and up to the signing of the accounts Forest Enterprise England has:

- 🌲 Worked with a private sector risk management expert to develop a series of workshops. The purpose of the workshops is to share experiences of handling risk at country and agency level, to review progress on embedding risk management and to ensure common standards when assessing risks;

- 🌲 Participated in the Forestry Commission wide, Risk Management Group (RMG), whose purpose is to ensure continued development of risk management within, and the sharing of best practice across, the Commission. The RMG met on four occasions, in July, November and December 2005, and in March 2006;
- 🌲 Implemented the revised Forestry Commission risk policy statement considered by both the Forestry Commission Executive Board and the Forestry Commission Audit Committee before being approved by the Board of Commissioners in September 2005;
- 🌲 Updated the existing Forest Enterprise England risk register to reflect newly identified potential risks and appropriate control measures for agreement by management board members in March 2006. This has included the further enhancement of the Risk Register methodology to clearly define inherent and residual risk; and
- 🌲 Supported the purchase and population of a commercial risk management software package. The software chosen integrates with that used by Internal Audit for planning and assignment management who has worked with the RMG co-ordinator during the year on its configuration and implementation. The system contains a number of reports designed to assist management in monitoring key risks.

The size and membership of the Forestry Commission Audit Committee (FCAC) is designed to represent all parts of the Forestry

Statement on Internal Control

Commission. A non-executive Commissioner represents England and the Agency Chief Executive can attend meetings if there are specific Forest Enterprise England issues. The Committee met three times during the year, in April, September and December 2005, to consider a range of reports from management, and from internal and external audit.

The Audit Committee, in the main, deals with higher level issues concerning control and governance. Director England and the Agency Chief Executive are provided with more detailed advice on the work of Internal Audit in particular, and control in general, via their local Internal Control Committee (ICC). The Committee covers both Forestry Commission England and Forest Enterprise England business. The ICC's objectives are to:

- 🌲 provide a forum for senior management to discuss internal control and audit matters;
- 🌲 promote understanding of the internal audit role and objectives;
- 🌲 assist the Head of Internal Audit in defining the scope of audit coverage and assessing priorities.

The Committee met twice during the year, in October 2005 and March 2006 to receive reports on audit activity, risk management and feedback on the work of the Audit Committee.

During the year, Internal Audit concluded a review of the structure, interactions and functioning of the Board of Commissioners, the Forestry Commission Executive Board and the National Committees. The Board of Commissioners discussed the findings

alongside a paper covering some wider issues arising from the requirements of the new Code on Corporate Governance for government bodies. The Board agreed that country based audit committees should be set up, to provide for a more effective review of each set of annual accounts in particular, but the new arrangements were dependent on the Board's agreement of terms of reference for the various decision-making bodies noted above. The Board finally agreed the responsibilities and relationships of the bodies in June 2006. A decision on the future role and conduct of a Forestry Commission Great Britain audit committee was deferred pending further discussion with the current FCAC Chair. Interim one-off arrangements were put in place to review the presentation of the 2005-06 accounts, and associated Internal Audit business, utilising the existing ICC members, together with a non-executive chair and external audit attendance. Proposed terms of reference for the country audit committees have been drafted and will be finalised once the meeting with the FCAC Chair has taken place in July 2006.

An Internal Audit review in 2004-05 identified that the Forestry Commission, as a whole, did not have fully developed contingency plans in place to effectively manage failure in key business systems. Since then, there has been some progress and most importantly a change of responsibility for business continuity planning was agreed by the Forestry Commission Executive Board in December 2005. This work is now co-ordinated by Director Finance via the RMG. The change recognises the need for the business areas to prepare contingency plans which meet their needs and which clearly link to business driven

Statement on Internal Control

risk management. Internal Audit will monitor progress through their involvement with the RMG and pursue more detailed work later in 2006-07.

5. REVIEW OF EFFECTIVENESS

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

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

The Head of Internal Audit has prepared an annual report and assurance statement to me as Agency Chief Executive and Accounting Officer. The report includes an overall assessment of the adequacy and effectiveness of risk management, control and governance within Forestry Commission England and Forest Enterprise England. The Director General as Principal Accounting Officer has received a similar report and assurance statement including any comments specific to the Great Britain core responsibilities. The overall opinion is that internal control within Forestry Commission

England and Forest Enterprise England continues to provide substantial assurance that material risks to the achievement of objectives are identified and adequately managed.

Opportunity was taken by Internal Audit in 2005-06 to follow up the audit undertaken in 2004 of external funding and partnership in England which had highlighted a number of concerns. Since then substantial effort has been made to tighten procedures and Internal Audit are now fully satisfied that the original limited assurance given on the adequate management of the material risks to the achievement of the system can now be raised to substantial. Internal Audit will undertake a follow-up review by December 2006 to test and evaluate the implementation and effectiveness of the processes now in place.

6. SIGNIFICANT INTERNAL CONTROL PROBLEMS

The significant problem involving delays in completion of the monthly bank reconciliations undertaken centrally was reported in last year's statement. The reconciliations were brought up to date during 2005-06 and Internal Audit undertook a verification check in November 2005 to provide assurance that the process was back under proper control for the 2005-06 accounts. In February 2006 Internal Audit again confirmed that the reconciliations were continuing to be performed on time and that any outstanding adjustments had been actioned. They reviewed improvements to the system and were satisfied that sufficient work had been undertaken by management to clear the item from the Statement on Internal Control.

S Hodgson
Accounting Officer
13 July 2006

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

FOREST ENTERPRISE ENGLAND

I certify that I have audited the financial statements of Forest Enterprise England for the year ended 31 March 2006 under the Government Resources and Accounts Act 2000. These comprise the Income and Expenditure Account and Statement of Total Recognised Gains and Losses, the Balance Sheet, the Cashflow Statement and the related notes. These financial statements have been prepared under the accounting policies set out within them.

Respective responsibilities of the Agency, the Chief Executive and auditor

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

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

I report to you my opinion as to whether the financial statements give a true and fair view and whether the part of the Financial Statements and the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000. I also report whether in all material

respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. I also report to you if, in my opinion, the Annual Report is not consistent with the financial statements, if Forest Enterprise England has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by relevant authorities regarding remuneration and other transactions is not disclosed.

I review whether the statement on pages 144-148 reflects Forest Enterprise England's compliance with HM Treasury's guidance on the Statement on Internal Control, and I report if it does not. I am not required to consider whether the Accounting Officer's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the Agency's corporate governance procedures or its risk and control procedures.

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

BASIS OF AUDIT OPINION

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board.

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

My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by Forest Enterprise England and Chief Executive in the preparation of the financial statements, and of whether the accounting policies are most appropriate to Forest Enterprise England circumstances, consistently applied and adequately disclosed.

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

OPINIONS

In my opinion:

- 👉 the financial statements give a true and fair view, in accordance with the Government Resources and Accounts Act 2000 and directions made thereunder by HM Treasury, of the state of Forest Enterprise England's affairs as at 31 March 2006 and of the deficit, total recognised gains and losses and cashflows for the year then ended;
- 👉 the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000; and
- 👉 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
18 July 2006

Income and Expenditure account

FOREST ENTERPRISE ENGLAND INCOME AND EXPENDITURE ACCOUNT for the Year Ended 31 March 2006

	Note	2005-06 £000	2004-05 £000
Operating Income			
Sales of Timber		18,705	17,347
Forest Protection and Maintenance		1,059	425
Management and Development of Estate	2		
Continuing operations		5,222	4,583
Discontinued operations		3,724	4,057
		28,710	26,412
Operating Expenditure			
Forest Planning		3,173	2,454
Harvesting and Haulage of Timber		10,760	10,061
Forest Roads		2,531	2,198
Forest Protection and Maintenance		13,412	12,294
Management and Development of Estate	2		
Continuing operations		5,899	4,983
Discontinued operations		3,418	3,413
		39,193	35,403
Operating Deficit		(10,483)	(8,991)
Recreation, Conservation & Heritage			
Income		12,989	9,738
Expenditure		26,790	21,509
		(13,801)	(11,771)
Operating Deficit Net of R,C & H		(24,284)	(20,762)
Surplus/(deficit) on sale of properties	4	672	967
Deficit		(23,612)	(19,795)
Notional cost of capital	5	(15,905)	(14,690)
Net Deficit for the Year		(39,517)	(34,485)
Transferred to General Fund		(39,517)	(34,485)

There have been no acquisitions during the year

The notes on pages 155 to 172 form part of these accounts

Statement of Total Recognised Gains and Losses

FOREST ENTERPRISE ENGLAND STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES for the Year Ended 31 March 2006

	Note	2005-06 £000	2004-05 £000
Net deficit for the year		(39,517)	(34,485)
Realised revaluation surplus	12/13	691	3,342
Revaluation surplus/(deficit) for the year	13/14	31,020	41,644
Total recognised gains and losses for the year		(7,806)	10,501

The notes on pages 155 to 172 form part of these accounts

FOREST ENTERPRISE ENGLAND
BALANCE SHEET
as at 31 March 2006

	Note	2005-06 £000	2004-05 £000
Fixed Assets			
Tangible assets	6	470,665	437,429
Debtors falling due after more than one year			
	8	175	243
Current Assets			
Stocks	7	3,430	3,280
Debtors	8	8,893	6,197
Cash at banks and in hand	9	19	21
		12,342	9,498
Creditors (amounts falling due within one year)	10	(10,451)	(5,645)
Net Current Assets			
		1,891	3,853
Total assets less current liabilities			
		472,731	441,525
Creditors (amounts falling due after more than one year)			
	10	(2,119)	(1,833)
Provision for Liabilities and Charges			
	11	(908)	(561)
		469,704	439,131
Capital and Reserves			
General fund	12	346,412	349,480
Revaluation reserve	13	119,625	89,326
Donated Asset Reserve	14	486	325
Government Grant Reserve	14	3,181	-
		469,704	439,131

The notes on pages 155 to 172 form part of these accounts

S Hodgson
 Accounting Officer
 13 July 2006

Cash Flow Statement

FOREST ENTERPRISE ENGLAND CASH FLOW STATEMENT for the Year Ended 31 March 2006

	Note	2005-06 £000	2004-05 £000
Net cash outflow from operating activities	15a	(19,973)	(20,488)
Capital expenditure and financial investment	15b	(3,452)	3,724
Financing	15c	23,423	16,772
Increase/(decrease) in cash	9	(2)	8

The notes on pages 155 to 172 form part of these accounts

NOTE 1 ACCOUNTING POLICIES

These financial statements have been prepared in accordance with the 2005-06 Government Financial Reporting Manual (FReM) issued by HM Treasury. The accounting policies contained in the FReM follow UK generally accepted accounting practice for companies (UK GAAP) to the extent that it is meaningful and appropriate to the public sector.

Where the FReM permits a choice of accounting policy, the accounting policy which has been judged to be most appropriate to the particular circumstances of Forest Enterprise England for the purpose of giving a true and fair view has been selected. Forest Enterprise England's accounting policies have been applied consistently in dealing with items considered material in relation to the accounts.

1.1 Accounting convention

These accounts have been prepared under the historical cost convention modified to account for the revaluation of fixed assets.

1.2 Tangible fixed assets

Legal ownership of all land and buildings is vested in the Secretary of State with legal ownership of the timber, including uncut trees, vested in the Forestry Commissioners. Legal ownership of other tangible fixed assets is vested in the Forestry Commissioners. Where the agency is the principal beneficial user of assets owned by the Secretary of State or Forestry Commissioners these are treated as a fixed asset of the agency. See also "Leases" at 1.11. below.

Forest Estate

Between 1993 and 2002, the forest estate was valued every five years on an open market basis (OMV) using regional valuation panels consisting of the Forestry Commission's land agent and two private sector firms. It was done 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 a relevant 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.

Non-Forest Land

Non-forest land was assessed as at 31 March 2002 in accordance with our policy of revaluing it at three-yearly intervals by professionally qualified staff employed by the Forestry Commission following the principles set out in the RICS Red Book. Valuation was on the basis of Open Market Value or Existing Use Value as appropriate under the RICS guidance. From 1 April 2002, non-forest land has been restated to current value annually using an unequipped agricultural land index provided by the District Valuer.

Non-forest land was scheduled to be re-assessed as at 31 March 2005 in accordance with the three-yearly interval stated in the previous accounting policy. It has been decided, however, to bring the policy in line with UK GAAP and undertake a professional valuation of non-forest land on a five-yearly basis with a formal review in the third year. The first five-yearly valuation will be undertaken at 31 March 2008 to coincide with the next full revaluation of the Forest Estate.

In 2004-05, professionally qualified staff employed by the Commission carried out a review into the use of the unequipped agricultural land indices provided by the District Valuer. The review concluded that use of the indices provided a reasonable restatement of

the current value of non-forest land. The indices were therefore used to restate values as at 31 March 2006 and will be used in each year until the professional valuation at 31 March 2008.

Dwellings and Other Buildings

Dwellings and other buildings were assessed as at 31 March 2002 in accordance with our policy of revaluing at three-yearly intervals by professionally qualified staff employed by the Forestry Commission following the principles set out in the RICS Red Book. Valuation was on the basis of Open Market Value or Existing Use Value as appropriate under the RICS guidance. From 1 April 2002, dwellings and other buildings has been restated to current value annually using appropriate indices provided by the District Valuer.

Dwellings and other buildings were scheduled to be re-assessed as at 31 March 2005 in accordance with the three-yearly interval stated in the previous accounting policy. It has been decided, however, to bring the policy in line with UK GAAP and undertake a professional valuation of dwellings and other buildings on a five-yearly basis with a formal review in the third year. The first five-yearly valuation will be undertaken at 31 March 2008 to coincide with the next full revaluation of the forest estate.

In 2004-05, professionally qualified staff employed by the Commission carried out a review into the use of the indices provided by the District Valuer. The review concluded that use of the indices provided a reasonable restatement of the current value of dwellings and other buildings. The indices were therefore used to restate values as at

31 March 2006 and will be used in each year until the professional valuation at 31 March 2008.

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

Expenditure on infrastructure

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

Surplus properties

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

Value based on advice provided by the selling agents and taking account of the circumstances of the sales. Revaluation takes place in the quarter following the development event.

Forest Holidays Land and Buildings

Forest Holidays land and buildings represent cabin sites and campsites that are operated on a commercial basis. Each site is valued annually using valuations provided by a professional firm of valuers who specialise in the leisure industry. Values are undertaken on an Existing Use or Depreciated Replacement Cost basis following the principles set out in the RICS Red Book and are based on each site's commercial potential to possible buyers.

Forestry vehicles, machinery and equipment (VME)

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

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

Office machinery and equipment (OME)

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.

Assets under construction

Assets under construction are carried at cost and are transferred to the appropriate fixed asset category when completed and ready for use.

1.3 Depreciation of tangible fixed assets

Land (forest estate, non-forest and Forest Holidays land) held under Freehold is not depreciated.

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

Land held under a finance lease
- unexpired term of the lease

Lease premium
- unexpired term of the lease

Freehold buildings
- up to 60 years

Buildings held under a finance lease
- lesser of unexpired term of lease
and 60 years

Forestry vehicles, machinery and equipment
- over 3 to 16 years

Office equipment
- over 4 to 20 years

1.4 Donations

Donations in respect of capital expenditure are credited to a donated asset reserve.

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

1.5 Government grants

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

1.6 Stocks

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

- a. timber at the cost of production;
- b. seed at the lower of cost of collection or net realisable value;
- c. plants and livestock at net realisable value;
- d. consumable materials and supplies held for continuing use are valued at cost or, where materially different, current replacement costs, and at net realisable value only when they either cannot or will not be used.

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

1.7 Provision for bad and doubtful debts

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

1.8 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.

1.9 Capital charge

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

1.10 Taxation

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

1.11 Leases

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

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

1.12 Insurance

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

1.13 Pensions

Past and present employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS). The defined benefit schemes are unfunded and are non-contributory except in respect of dependants' benefits. Forest Enterprise England recognises the expected cost of these elements on a systematic and rational basis over the period during which it benefits from employees' services by payment to the PCSPS of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the PCSPS. In respect of the defined contribution schemes, Forest Enterprise England recognises the contributions payable for the year.

Further information on pensions is contained in the Remuneration Report and note 3 to the accounts.

1.14 Third party assets

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

1.15 Contingent liabilities

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

Where the time value of money is material, contingent liabilities which are required to be disclosed under FRS 12 are stated at

discounted amounts and the amount reported to Parliament separately noted. Contingent liabilities that are not required to be disclosed by FRS 12 are stated at the amounts reported to the Parliament.

1.6 Turnover

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

NOTE 2 OPERATING DEFICIT

2.1 2004-05 was the first year in the Newlands 1 economic regeneration scheme, a scheme involving a number of partners with the objective of restoring former industrial land by creating community woodlands. The accounting of the scheme has been revised in 2005-06 and the prior year figures adjusted to reflect the change in accounting. The impact on the 2004-05 operating deficit is nil but there are changes to individual income and expenditure activities:

Management and development of estate income	£146,000 decrease
Forest protection and maintenance expenditure	£54,000 increase
Management and development of estate expenditure	£421,000 decrease
Recreation, conservation and heritage income	£206,000 decrease
Recreation, conservation and heritage expenditure	£15,000 increase

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

	2005-06	2004-05
	£000	£000
Depreciation of fixed assets	2,346	2,253
Hire of plant and equipment	761	858
Operating lease rentals:		
Land and buildings	129	128
Plant and machinery	1,665	1,996
Auditors' remuneration – audit work	55	49
Auditors' remuneration – non-audit work	-	-

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

- 🌲 Finance and accounting services
- 🌲 Information and communications technology
- 🌲 Human Resources, including forestry training services
- 🌲 Communications
- 🌲 Grants and licences
- 🌲 Operational support services

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

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

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

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

	Income £000	Expenditure £000	2005-06 Net £000	Restated 2004-05 Net £000
Continuing operations				
Estate Management	3,057	3,246	(189)	(505)
Reversal of impairment	-	-	-	1
Other	2,165	2,653	(488)	104
	5,222	5,899	(677)	(400)
Discontinued operations				
Forest Holidays	3,724	3,418	306	644
Totals	8,946	9,317	(371)	244

On the 8 May 2006, the Forestry Commission entered into a joint venture with the Camping and Caravanning Club to take over management of its Forest Holidays business. The limited liability partnership (LLP) will provide funding for modernisation and expansion of the business together with the necessary skills and vision to grow the business. As part of the agreement, Forest Holidays cabin and campsite land and buildings have been transferred to the joint venture in exchange for a lease and loan debtor.

Forest Enterprise England will transfer about £536,000 of income received in advance for holidays commencing on or after 8 May 2006 that belongs to the LLP. All Forest Holidays' operations will in future be undertaken by the Joint Venture and Forest Enterprise England will account for its share of the Joint Venture's profits and assets and liabilities in accordance with Financial Reporting Standard 9.

For 2005-06, Forest Holidays remained a GB wide business, with a remit for all sites in England, Wales and Scotland. For management purposes, Forest Holidays was part of Forest Enterprise England's recreation and development team but charges for Scotland and Wales are separately accounted for within each country. The income and expenditure for 2005-06 resulting from Forest Holidays' operations in England has been disclosed within these financial statements as a discontinued operation under Financial Reporting Standard 3.

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

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

NOTE 3 STAFF COSTS AND NUMBERS

3.1 Employees and costs

The average number of whole time equivalent persons employed in Forest Enterprise England during the year was 960 (934 in 2004-05). In addition, the number of whole time equivalents employed as agency/temporary staff was 13 (14 in 2004-05). The aggregate payroll costs were as follows:

	2005-06	2004-05
	£000	£000
Salaries	20,614	19,629
Social Security Costs	1,488	1,422
Other pension costs	3,309	2,285
Agency/temporary staff	176	92
	25,587	23,428
Less recoveries in respect of outward secondments	(96)	-
	25,491	23,428

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme but the Forestry Commission is unable to identify its share of the underlying assets and liabilities. The scheme actuary (Hewitt Bacon Woodrow) valued the scheme as at 31 March 2003. You can find details in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice-pensions.gov.uk).

For 2005-06, employers' contributions of £3,295,000 were payable to the PCSPS (2004-05 £2,277,000) at one of four rates in the range 16.2% to 24.6% (2004-05 12% and 18.5%) of pensionable pay, based on salary bands. The scheme Actuary reviews employer contributions every four years following a full scheme valuation. From 2006-07, the salary bands will be revised and the rates will be in a range between 17.1% and 25.5%. The contribution rates are set to meet the cost of the benefits accruing during 2005-06 to be paid when the member retires, and not the benefits paid during this period to existing pensioners.

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employers' contributions of £13,000 were paid to one or more of a panel of three appointed stakeholder pension providers. Employer contributions are age-related and range from 3% to 12.5% of pensionable pay. Employers also match employee contributions up to 3% of pensionable pay. In addition, employer contributions of £930 (£430 for 2004-05), 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.

Notes to the accounts

NOTE 4 SALE OF PROPERTIES

	2005-06	2004-05
	£000	£000
Income	2,123	5,863
Book value	1,095	4,400
	1,028	1,463
Disposal costs		
External costs	(83)	(182)
Administration expenses	(273)	(314)
	(356)	(496)
Surplus/(deficit) on sale of properties	672	967

NOTE 5 NOTIONAL COST OF CAPITAL

Notional cost of capital based on 3.5% of average total assets less liabilities employed in 2005-06 amounted to £15,905,000. (14,690,000 in 2004-05)

NOTE 6 TANGIBLE FIXED ASSETS

	Forest Estate	Land	Forest Holidays Land	Dwellings and Other Buildings	Forest Holidays Buildings	VME	OME	POA & AUC	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Valuation:									
At 1 April 2005	353,580	26,099	2,770	47,686	8,336	6,853	1,273	1,330	447,927
Additions	966	158	-	-	-	138	77	1,106	2,445
Donations/ government grants	-	-	-	-	-	-	-	3,318	3,318
Transfers	-	2,036	-	85	-	(508)	3	(2,120)	(504)
Disposals	(134)	(20)	-	(1,017)	-	(748)	(640)	-	(2,559)
Write-off	-	-	-	-	-	-	-	(42)	(42)
Revaluation	26,772	235	-	3,803	472	6	-	-	31,288
Impairment	-	-	-	-	-	-	(21)	-	(21)
At 31 March 2006	381,184	28,508	2,770	50,557	8,808	5,741	692	3,592	481,852
Depreciation:									
At 1 April 2005	-	-	-	3,892	790	4,768	1,048	-	10,498
Provided during year	-	-	-	1,381	304	576	85	-	2,346
Transfers	-	-	-	(1)	1	(576)	(1)	-	(577)
Disposals	-	-	-	(76)	-	(631)	(634)	-	(1,341)
Revaluation	-	-	-	273	-	(5)	-	-	268
Impairment	-	-	-	-	-	-	(7)	-	(7)
At 31 March 2006	-	-	-	5,469	1,095	4,132	491	-	11,187
Net book value									
at 31 March 2006	381,184	28,508	2,770	45,088	7,713	1,609	201	3,592	470,665
Net book value at 1 April 2005	353,580	26,099	2,770	43,794	7,546	2,085	225	1,330	437,429

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

Additions to payments on account and assets under construction included £137,000 funded by donations and £3,181,000 funded by government grants. Government grants include amounts of £2,012,000 from the Office of the Deputy Prime Minister, £500,000 from Sport England and £294,000 from Yorkshire Forward. £264,000 was received from the European Union.

The forest estate was subject to a full professional revaluation on the basis of existing use value as at 31 March 2003 by country valuation panels comprising John Clegg & Co. Chartered Surveyors, Raymond-Barker and Co. Chartered Surveyors and professionally qualified land agents employed by the Forestry Commission. The next full revaluation is due as at 31 March 2008 with annual updates in the intervening years based on an external professional opinion. For 2005-06, valuations were updated using indexation information provided by John Clegg & Co., Chartered Surveyors. The 2005-06 revaluation of the forest estate includes £10,600,000 relating to areas of land omitted from the 2004-05 revaluation.

Non-forest land and dwellings and other buildings were scheduled to be re-assessed as at 31 March 2005 in accordance with the three-yearly interval stated in the previous accounting policy. It has been decided, however, to bring the policy in line with UK GAAP and undertake a professional valuation of non-forest land and dwellings and other buildings on a five-yearly basis. The first five-yearly valuation will be undertaken at 31 March 2008, to coincide with the next full revaluation of the Forest Estate, with annual updates in the intervening years based on indices provided by the District Valuer.

In accordance with accounting policy 1.2, as at 31 March 2006 management had taken the decision to dispose of nine Dwellings and Other Buildings and thirty nine properties within the Forest Estate and Other Land. These are at various stages of the disposal process from initial marketing through to acceptance of offers. The buildings are included in the financial statements at a net book value of £1,201,000. The land assets are included at a value of £4,111,000. These values have been determined using an Open Market Valuation basis by internal, professionally qualified staff. Prior to revaluation the net book values were £449,200 for buildings and £3,897,000 for land.

Forest Holidays land and buildings were revalued by Barrs and Co. Chartered Surveyors of Leeds as at 31 March 2006.

Forestry vehicles, machinery and equipment (VME) were subject to a full revaluation as at 31 March 2005 by professionally qualified staff employed by the Forestry Commission. The next full revaluation is due as at 31 March 2010 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 2006 using an index provided by the Office for National Statistics.

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

Notes to the accounts

NOTE 7 STOCKS

	2005-06	2004-05
	£000	£000
Timber	480	487
Plants and seed	2,439	2,220
Consumable materials, supplies and livestock	511	573
	3,430	3,280

NOTE 8 DEBTORS

	2005-06	2004-05
	£000	£000
Amounts falling due within one year:		
Trade debtors	6,952	4,747
Other debtors	173	245
Prepayments and accrued income	1,768	1,205
	8,893	6,197
Amounts falling due after more than one year:		
Other debtors	175	243
	9,068	6,440

NOTE 9 CASH AT BANKS AND IN HAND

	2005-06	2004-05
	£000	£000
Cash at commercial banks and in hand	19	21
	19	21

NOTE 10 CREDITORS

	2005-06	2004-05
	£000	£000
Amounts falling due within one year:		
Trade creditors	6,311	3,392
Other creditors	89	129
Accruals and deferred income	3,944	1,177
Current part of finance leases	103	85
Payments received on account	4	862
	10,451	5,645
Amounts falling due after more than one year:		
Finance leases	2,119	1,833
	12,570	7,478

Forest Enterprise England acts as co-ordinator for the Interreg Project which is funded by the European Union. The purpose of the Interreg Project is the promotion and guidance of recreation and conservation in forestry. The duties of co-ordinators include receiving EU funds on behalf of partners for onward transmission once work programmes have

been approved. As third party assets these sums are not recorded on the face of these accounts. At 31 March 2006 the amount held in Forestry Commission bank accounts on behalf of partners was £152,200 (£309,360 in 2004-05). This has subsequently all been transferred to the partners concerned.

Note 11 Provision for liabilities and charge

	Early departure costs	Public legal claims	Other legal claims	Total
	£000	£000	£000	£000
Balance at 1 April 2005	334	99	128	561
Provided in the year	248	181	236	665
Provisions not required written back	-	(68)	(26)	(94)
Provisions utilised in the year	(141)	-	(85)	(226)
Unwinding of discount	2	-	-	2
Balance at 31 March 2006	443	212	253	908

Forest Enterprise England provides for legal or constructive obligations which are of uncertain timing or amount at the balance sheet date on the basis of the best estimate of the expenditure required to settle the obligation. Where the effect of the time value of money is significant, the estimated risk-adjusted cashflows are discounted using the real rate set by HM Treasury (currently 2.2 per cent).

Provisions for liabilities and charges include provisions for:

- 🌳 Early departure costs.
- 🌳 Legal claims from the public for personal injury or damage caused to property.
- 🌳 Compensation for injury to employees.

Notes to the accounts

NOTE 12 GENERAL FUND

	2005-06	2004-05
	£000	£000
Balance at 1 April	349,480	349,231
Movement in year:		
Net deficit for the year	(39,517)	(34,485)
Notional cost of capital	15,905	14,690
Cash deficit funded by Forestry Commission	20,105	16,772
Transfers of fixed assets from/to other Forestry Bodies	71	107
Transferred to general fund (realised element of revaluation reserve)	691	3,342
Timing between accrual and cash VAT	(497)	-
Non-cash inter-country transfers	174	(177)
	(3,068)	249
Balance at 31 March	346,412	349,480

NOTE 13 REVALUATION RESERVE

	2005-06	2004-05
	£000	£000
Balance at 1 April	89,326	51,024
Arising on revaluation during the year:		
Forest Estate	26,772	28,697
Land	235	7,962
Forest Holidays land	-	575
Forest Holidays buildings	472	290
Dwellings and other buildings	3,500	4,193
VME	11	(73)
	30,990	41,644
Transferred to general fund (realised element of revaluation reserve)	(691)	(3,342)
Balance at 31 March	119,625	89,326

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

	2005-06	2004-05
	£000	£000
Forest estate	-	-
Other land	-	(3,260)
Buildings	(676)	(76)
VME	(15)	(6)
	(691)	(3,342)

NOTE 14 RESERVES

Note 14 (a) Donated asset reserve

	2005-06	2004-05
	£000	£000
Balance at 1 April	325	67
Additions during the year	137	255
Revaluations	30	4
Release to I&E	(6)	(1)
Balance at 31 March	486	325

Note 14 (b) Government grant reserve

	UK	EU	2005-06	2004-05
	£000	£000	£000	£000
Balance at 1 April	-	-	-	-
Additions during the year	2,917	264	3,181	-
Revaluations	-	-	-	-
Release to I&E	-	-	-	-
Balance at 31 March	2,917	264	3,181	-

NOTE 15 NOTES TO THE CASH FLOW STATEMENT

15a Reconciliation of net deficit to operating cash flows

	2005-06	2004-05
	£000	£000
Net deficit for the year	(39,517)	(34,485)
Notional cost of capital	15,905	14,690
Depreciation charges	2,346	2,253
Donated asset reserve released	(6)	(1)
(Profit)/loss on sale of properties	(1,030)	(1,463)
Tangible fixed asset write-off	42	26
Impairment of tangible fixed assets	14	(1)
(Profit)/loss on sale of other tangible fixed assets	(65)	(10)
Timing between accrual and cash VAT	(497)	-
Non-cash inter-country transfers	174	(177)
(Increase)/decrease in stocks	(150)	(35)
(Increase)/decrease in debtors	(2,628)	(396)
Increase/(decrease) in creditors	5,092	(186)
Increase/(decrease) in provisions	347	(703)
Net cash outflow from operating activities	(19,973)	(20,488)

Notes to the accounts

15b Analysis of capital expenditure and financial investment

	2005-06	2004-05
	£000	£000
Payments to acquire tangible fixed assets	(5,763)	(2,252)
Receipts from sale of properties	2,123	5,863
Receipts from sale of other tangible fixed assets	188	113
Net cash outflow from investing activities	(3,452)	3,724

15c Analysis of financing

	2005-06	2004-05
	£000	£000
Deficit funded by Forestry Commission	20,105	16,772
Donations toward capital expenditure	137	-
Government grants towards capital expenditure	3,181	-
Net financing	23,423	16,772

NOTE 16 CAPITAL COMMITMENTS

Amounts contracted for but not provided in the accounts amounted to £1,802,000 (£442,000 for 2004-05), £1,779,000 relating to the construction of a visitor centre at Dalby Forest in North York Moors and the remainder being the purchase of plant and machinery.

NOTE 17 COMMITMENTS UNDER LEASES

Operating leases

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

	2005-06	2004-05
	£000	£000
Land and building leases expiring within:		
One year	-	-
Two to five years	13	13
More than five years	116	115
	129	128
Plant and machinery leases expiring within:		
One year	-	287
Two to five years	1,459	1,709
More than five years	206	-
	1,665	1,996

Finance leases

Obligations under finance leases fall due as follows:

	2005-06	2004-05
	£000	£000
Rentals due in one year or less	103	85
Rentals due in more than one year but not more than two years	100	86
Rentals due in more than two years but not more than five years	280	256
Rentals due in more than five years	1,739	1,491
	2,222	1,918

NOTE 18 OTHER FINANCIAL COMMITMENTS

Forest Enterprise England has entered into non-cancellable contracts for artist fees and stage rental for the 'Forest Concert Tour 2006' at various venues in England of £1,800,000 and a financial commitment pertaining to the Festival Of Woods of £5,000. (£1,230,000 for 2004-05).

NOTE 19 CONTINGENT LIABILITIES

There were no contingent liabilities.

NOTE 20 POST BALANCE SHEET EVENTS

On the 8 May 2006, the Forestry Commission entered into a joint venture with the Camping and Caravanning Club to take over management of its Forest Holidays business. More information can be found in the Annual Report and note note 2.3 to these accounts.

NOTE 21 RELATED PARTY TRANSACTIONS

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

In addition, Forest Enterprise England has had various material transactions with other government departments and other central

government bodies. The main entities within government with which the Forestry Commission has had dealings are H M Treasury, UK Co-ordinating Body, the Paymaster General's Office, HM Revenue and Customs, the Department for the Environment, Food and Rural Affairs, the Office of the Deputy Prime Minister, the North West Development Agency and Yorkshire Forward.

In the year to 31 March 2006, the Forestry Commission entered into the following material transactions involving the non-executive Commissioners of the Forestry Commission:-

Martin Gale, a non-executive Forestry Commissioner was, at 31 March 2006, Chairman of Tilhill Forestry and Vice President, International Forestry, UPM-Kymmene Corporation. UPM-Kymmene is the parent company of Shotton Paper, Caledonian Paper and Tilhill Forestry Ltd. Tilhill Forestry has an interest in BSW Timber plc

The value of purchases from Forest Enterprise England was:

BSW Timber plc	£1,501,000
Tilhill Forestry	£1,089,000

Amounts owing to Forest Enterprise England at 31 March 2006 were:

BSW Timber plc	£231,000
Tilhill Forestry	£36,000

NOTE 22 LOSSES STATEMENT

Losses totalled £51,000 from 38 cases (£29,000 from 48 cases in 2004-05).

Special payments totalled £104,000 from 40 cases (£92,000 from 29 cases in 2004-05).

NOTE 23 FINANCIAL INSTRUMENTS

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

As permitted by FRS 13, debtors and creditors which mature and become payable within 12 months from the balance sheet date have been omitted from the liquidity profile.

Liquidity risk

The UK Government makes provision for the

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

Interest-rate risk

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

Foreign currency risk

Forest Enterprise England is not exposed to foreign currency risk.

Fair Values

There is no difference between book value and fair value for the cash at bank shown in Note 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 3.5% in real terms.

NOTE 24 FINANCIAL PERFORMANCE MEASURES

The financial performance measures set by the National Committee for England for 2005-06 and the actual outturns achieved were:

	Achieved	Target
	£000	£000
Operating deficit	39,517	37,848
Cash deficit	19,973	21,865
Gross receipts from sale of properties	2,123	2,000

Accounts Direction Given By The Treasury

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

1. The Forestry Commission shall prepare accounts for Forest Enterprise of its activities in England for the financial year ended 31 March 2006 and subsequent years, comprising:

- (a) an annual report;
- (b) a statement of Accounting Officer's responsibilities;
- (c) a statement on internal control;
- (d) an income and expenditure account;
- (e) a statement of total recognised gains and losses;
- (f) a balance sheet; and
- (g) a cash flow statement,

including such notes as may be necessary for the purposes referred to in the following paragraphs.

2. The accounts shall give a true and fair view of the income and expenditure, and cash flows for the financial year, and the state of affairs as at the end of the financial year.
3. Subject to this requirement, the accounts shall be prepared in accordance with:
- (a) generally accepted accounting practice in the United Kingdom (UK GAAP) having regard for the requirements of the Government Financial Reporting Manual;

- (b) the disclosure and accounting requirements contained in The Fees and Charges Guide (in particular those relating to the need for segmental information for services or forms of service provided) and in any other guidance which HM Treasury may issue from time to time in respect of accounts which are required to give a true and fair view;

- (c) the accounting and disclosure requirements of Government Accounting, as amended or augmented from time to time,

insofar as these are appropriate to Forest Enterprise and are in force for the financial year for which the accounts are to be prepared.

4. Additional requirements are set out in Schedule 1 attached.

5. Clarification of the application of the accounting and disclosure requirements of the Companies Act and accounting standards is given in Schedule 2 attached.

6. The income and expenditure account and balance sheet shall be prepared under the historical cost convention modified by the inclusion of:

- a. the forest estate at its existing use value;
- b. land and buildings at their existing use value where a market exists, otherwise at depreciated replacement cost;
- c. machinery, plant and equipment at current replacement cost;

Accounts Direction Given By The Treasury

- d. commercial recreation assets at their existing use value; and
- e. stocks of seed at the lower of cost or net realisable value, stocks of plants and livestock at net realisable value and stocks of consumable materials at current replacement cost.

7. This direction shall be reproduced as an appendix to the accounts and supersedes that dated 21 May 2002.

IAN CARRUTHERS

Director, Government Reporting, HM Treasury
27 February 2006

SCHEDULE 1 ADDITIONAL REQUIREMENTS

Annual Report

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

Income and Expenditure Account

2. The income and expenditure account shall be in a form which discloses the information described below, as the recommended formats described in Schedule 4 to the Companies Act are not appropriate for Forest Enterprise:

- a. under "operating income":
 - 🌲 sales of timber
 - 🌲 other forest sales
 - 🌲 other activities
- b. under "operating expenditure (by activity)":
 - 🌲 harvesting and haulage of timber
 - 🌲 restocking after felling
 - 🌲 forest roads
 - 🌲 forest maintenance and protection
 - 🌲 other activities
- c. the resulting operating surplus/deficit shall be shown as a separate heading
- d. under "recreation, conservation and heritage":
 - 🌲 income
 - 🌲 expenditure
- e. giving operating surplus/deficit net of recreation, conservation and heritage

- f. the surplus/deficit arising from the sale of properties and the notional cost of capital
- g. the "net surplus/deficit for the year" which shall be transferred to the general fund.

3. Minor changes may be made to the headings in the accounts without the approval of HM Treasury.

Notes to the Accounts

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

SCHEDULE 2 APPLICATION OF THE ACCOUNTING AND DISCLOSURE REQUIREMENTS OF THE COMPANIES ACT AND ACCOUNTING STANDARDS

Companies Act

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

Accounting standards

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

Boundaries and Contacts

FORESTRY COMMISSION NATIONAL AND CONSERVANCY BOUNDARIES



FOREST ENTERPRISE BOUNDARIES



Boundaries and Contacts

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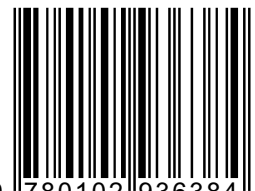
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