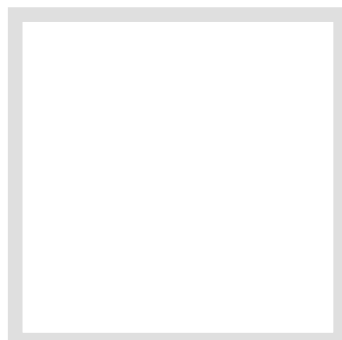
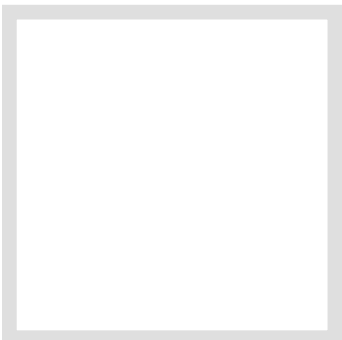
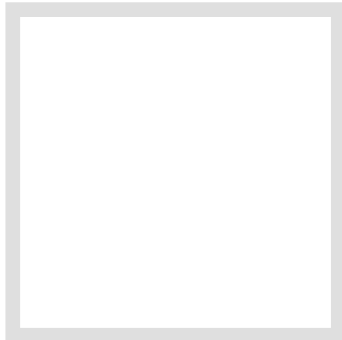
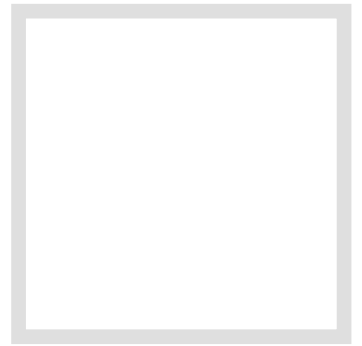


Scotland

Annual Report & Accounts

01.02



The Forestry Commission in Scotland






The mission of the Forestry Commission in Scotland is to protect and expand Scotland's forests and woodlands and to increase their value to society and the environment.

The Vision

The Scottish Forestry Strategy is the Scottish Executive's framework for taking forestry forward, through the first part of the new century and beyond. The vision is that Scotland will be renowned as a land of fine trees, woods and forests which strengthen the economy, which enrich the natural environment and which people enjoy and value. High quality trees, woods and forests can help make Scotland a better place for people to live and work in and to visit. Increasing confidence in the future of forestry will encourage investment that will benefit current and future generations.

Strategic Directions

The Scottish Executive's Scottish Forestry Strategy gives us five strategic directions. They are:

-  to maximise the value to the Scottish economy of the wood resource becoming available for harvesting over the next 20 years;
-  to create a diverse forest resource of high quality that will contribute to the economic needs of Scotland throughout the twenty-first century and beyond;
-  to ensure that forestry in Scotland makes a positive contribution to the environment;
-  to create opportunities for more people to enjoy trees, woods and forests in Scotland; and
-  to help communities benefit from woods and forests.

The Forestry Commission 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, always 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.

Contents

Annual Report and Accounts 2001-2002 for Scotland
Laid before the Scottish Parliament by the Scottish Ministers
December 2002

2	Foreword by Chairman
3	Introduction by Chief Conservator
6	Maximising the Value of our Wood Resource
9	Creating a Diverse Forest Resource for the Future
14	Making a Positive Contribution to the Environment
20	Creating Opportunities for More People to Enjoy Trees, Woods and Forests
23	Helping Communities Benefit from Woods and Forests
26	Using our Resources Efficiently
	Appendices
30	Membership of Committees, Panels and Groups
32	Selected Extracts from Speeches and Press Releases
37	Woodland Grant Scheme and Farm Woodland Premium Scheme Reviews
39	Woodland Grant Scheme Applicants' Charter
40	Forestry Commission Boundaries and Staff
44	Tables
52	Financial Highlights
55	Resource Accounts
89	Forest Enterprise in Scotland Accounts

In addition to this report to the Scottish Ministers on our activities in Scotland, the Forestry Commission provides a report to the National Assembly (about our activities in Wales) and to the Westminster Parliament (about our activities in England and about our activities that are funded at the Great Britain level, such as international policy).

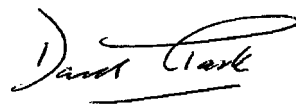
Foreword, Lord Clark

My associations with the Forestry Commission go back a good many years, and so I was delighted to have been appointed Chairman in December 2001.

My appointment coincides with the review that is being carried out, to explore whether the administrative arrangements for forestry can be improved. Since July 1999, when forestry became a devolved matter, we have been responsible to Scottish Ministers for our work in Scotland, while still endeavouring to benefit from the economies of scale and synergies of working with other parts of the Forestry Commission across Britain. With almost three years of experience under these arrangements, the time is ripe to review the options for further decentralisation of forestry policy and management. On 22 January, Allan Wilson, Deputy Minister for Environment and Rural Development, announced the terms of reference of the review. He launched a public consultation exercise (after the period covered by this Report) on 20 February, which resulted in the announcement on 20 August 2002.

A Cabinet Office official chaired the Review Steering Group, which also included officials from the Scottish Executive Environment and Rural Affairs Department and equivalent departments from England, Wales, and Northern Ireland, along with the Treasury and the Forestry Commission. Any review of this sort can be unsettling for staff, but I am confident that it will lead to a framework for delivery of forestry policy that is practicable and sustainable.

I also pay tribute to my predecessor, Sir Peter Hutchison. During his chairmanship from 1994, he has overseen key changes in the organisation, including the creation of two agencies and the adaptation to devolution, as well as a continuing broadening of forestry policy to deliver environmental and social as well as economic benefits. All those with an interest in Scottish forestry owe an enormous debt to him for all that he has done.



Lord Clark

Introduction, and Highlights of the Year, Chief Conservator

Developments in the Wider Policy Context

The Forestry Commission in Scotland acts as the forestry department of the Scottish Executive, and is responsible to Scottish Ministers. It has a National Office for Scotland in Edinburgh and six regional Conservancy Offices. During the year, Allan Wilson replaced Rhona Brankin as Deputy Minister for Environment and Rural Development, with responsibility for forestry.

This report highlights ways in which we have worked to help deliver the Executive's Scottish Forestry Strategy. The Executive has also published its Forward Strategy for Scottish Agriculture, which recognises that: "Forestry is a traditional alternative use of land, offering new opportunities for income generation, improving our environment and developing links with the recreation and tourism industries."

The interdependence of rural activities was highlighted by the outbreak of foot and mouth disease, which had a devastating effect on rural communities. Because we are aware of the importance of Scotland's national forests, managed by Forest Enterprise, we resumed our usual levels of activity and facilities for visitors as soon as risk assessments allowed in line with Scottish Ministers' policy of reopening the countryside as soon as possible. This involved often complex discussions with neighbouring farming and tourist sector business interests. By the end of May we were able to offer access to most of Scotland north of the central lowlands. By 2 July all of our main facilities were open, except some sites in the affected area, or where neighbours had special concerns.

We have been involved in a good deal of work this year in those national forests that are in the areas proposed for national parks. After extensive consultation, the Scottish Executive set the boundary of the Loch Lomond and Trossachs National Park to include both the Queen Elizabeth Forest Park and the Argyll Forest Park. We were pleased to see that the Argyll Forest Park was included, because much of it had been given in 1906 to Glasgow Corporation by Archibald Corbett, a local MP, as "a place of resort for the community and inhabitants of the said City". The land was later transferred to the Forestry Commission. We are keen to contribute to the success of Scotland's new national parks.

The Forestry Commission has continued to carry out the Executive's policies on land reform, working to involve communities in the planning and management of forests, and delivering local benefits from forests. We have done this through Forest Enterprise's work in the national forests, for example the agreement on Minard, and through partnership working, for example carrying out research through the advisory panel on forestry for people. We also worked with the Institute of Chartered Foresters to host an event that explained to forest managers and planners the benefits of increased participation.

We have expanded the number of partnerships where Forest Enterprise is working with local people, other agencies and organisations. This is in addition to the many contacts and discussions we have with local people about activities such as forest design plans and timber haulage arrangements.

Introduction, and Highlights of the Year, Chief Conservator (continued)

Local Forest Enterprise staff have continued to develop their skills and experience in this demanding but increasingly important activity.

The Executive's Tourism Framework for Action 2002-05, published in March 2002, identifies two important roles for the Forestry Commission:

- 🌲 to manage the national forest resource for the economic, environmental and social benefit of Scotland; and
- 🌲 to increase forestry's contribution to tourism, and to improve the availability of information about opportunities for enjoyment of Scotland's trees, woods and forests.

We expect that Treefest Scotland 2002, which we are developing with partners in the public, private and voluntary sectors, will make a significant contribution to tourism in rural Scotland.

We also worked closely with the Deer Commission for Scotland to help it develop a long-term strategy for wild deer in Scotland, which was launched by Ross Finnie, Minister for Environment and Rural Development, at Dunkeld, where Sir Peter Hutchison also spoke.

The Forestry Commission plays an important part in the Scottish Biodiversity Forum, which was launched in February. The launch event, which included a presentation on forestry's contribution to biodiversity, focused on the theme of tourism, and how it could benefit from Scotland's biodiversity.

A seminar on sustainable forestry and rural development was held in Scotland House in Brussels on 24 April, for about 40 people. The speakers from Scotland were our then Minister Rhona Brankin, Peter Wilson of the Forest Industries Development Council, Adam Harrison of the World Wide Fund for

Nature and Willie McGhee of the Borders Forest Trust. The other speakers were an official from the Directorate General for Agriculture in the European Commission, the chief regional forester for mid-Sweden and the head of the forestry department in the Bavarian Ministry of Agriculture and Forestry. Other leading officials from the European Commission were also present.

Implementing the Strategy

On 13 September, Rhona Brankin announced that she was asking the Forestry Commission to establish a Scottish Forestry Forum to:

- 🌲 ensure successful progress is made in taking forward the Scottish Forestry Strategy;
- 🌲 promote discussion about how to maximise the economic, environmental and social benefits of forestry in Scotland; and
- 🌲 consider how Scottish forestry can best contribute to the wider rural development agenda in Scotland.

When the Minister launched the Forestry Strategy in November 2000, she also announced a review of the Woodland Grant Scheme and Farm Woodland Premium Scheme, intended to make sure that they are focused on achieving priorities in the Executive's Forestry and Agriculture Strategies. The Executive and the Forestry Commission jointly held a public consultation on the review of the grant schemes during 2001, and hosted local seminars in August to discuss issues arising out of the consultation. A total of 168 organisations and individuals took part in these exercises. Many people emphasised a need to focus more on grants for managing existing woods. A steering group, chaired jointly by the Forestry Commission and the Scottish Executive Environment and Rural Affairs Department and including representatives of the forestry, agricultural and environmental sectors, as well

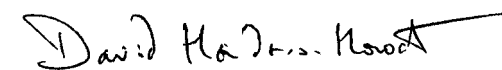
as local government, conducted the review and drafted a report. (The report on how grant schemes could more effectively deliver policy priorities was sent to Ministers in May 2002).

Several local authorities have produced Indicative Forestry Strategies Issues Papers or draft strategies. Ayrshire, Moray and Fife have made the most progress. Work has also begun in Aberdeenshire and Highland, and there are plans to prepare indicative strategies in Scottish Borders, Stirling and Clackmannanshire; Perth and Kinross; Argyll and Bute; and Glasgow and Clyde Valley.

We have developed ways of measuring how well the Scottish Forestry Strategy is being carried out, based largely on work done by the consultants URS Dames and Moore. (These were published in draft as a suite of indicators on our website in May 2002).

We made progress on a significant study (which will be completed in 2002) into the value of a wide range of social and environmental benefits of forestry. The study is examining aspects that have been valued in previous studies – recreation, biodiversity and landscape – and also the public benefits of other aspects of forests, such as their contribution to air and water quality.

Scottish forestry continues to be bedevilled by low timber prices, which remain at their lowest level ever, in real terms. This is putting enormous pressure on everyone in and connected to the industry, including processors, contractors and growers. It is against this difficult back-drop that we report the many positive aspects of the year.



David Henderson-Howat

Maximising the Value of our Wood Resource

The Forestry Commission has worked hard to maximise the value of the wood that will be available for harvest during the coming 20 years. This section sets out some of the ways we have been doing this.

Promoting More use of Wood

We published a booklet, *Designing with Timber*, in October and distributed it to architects and surveyors throughout Scotland. This full-colour, 56 page, publication gives a wide range of information on the history of the use of timber in buildings, its sustainability and certification, design innovation and new initiatives, and on selection, specifying and sourcing timber, including engineered wood products. The European Union Northern Periphery Programme and the Scottish Forest Industries Cluster supported the project.

The Forestry Commission continued to support the United Kingdom wide campaign 'Wood. For good'. This campaign also funded the Timber Research and Development Association to deliver some events for architectural practices in Scotland.

Scottish Forest Industries Cluster

The Scottish Forest Industries Cluster has moved forward in its second year, building on earlier achievements and continuing its quest to maximise the value of the Scottish timber resource through innovation. Under the new chairmanship of Stefan Kay OBE, the Cluster Leadership Group has directed its efforts particularly at market and product development, such as examining the potential of engineered wood products, considering the needs of both the construction and pulp and paper industries, and looking at the opportunities for wood as a source of energy.

The cluster, in partnership with the Forest Industries Development Council, has been working to make

more people recognise the sustainability of wood as a material. Also, to increase expertise in the use of timber across the industry, it has supported the setting up of the new Centre for Timber Engineering at Napier University.

The cluster has also worked to promote efficiencies in the supply chain through e-business systems, and to develop more effective timber transport. The cluster has used seminars and workshops to increase awareness of its work, and its importance to the industry.

Significant Processing Developments

Timber production is increasing in Scotland, and a number of significant developments have helped to increase the industry's capacity to process this. These include the opening of a new particle board line at Nexfor and the full commissioning of new sawmills in Lockerbie by James Jones and Son and by Forest Garden to help meet the need for increased capacity to match the growing timber production in Scotland.

Forest Enterprise and the Supply of Timber

During the year, Forest Enterprise supplied 2.8 million m³, in line with the production forecast, and now has 65 per cent of production committed to long-term contracts. West Argyll Forest District launched a trial Logshop in the port of Ayr, where timber is brought to a central point and customers can buy at fixed prices, just like a High Street shop. The district will add a section to the Forestry Commission website in 2002, allowing customers to see what timber is in stock from moment to moment. The same district also signed an innovative standing sale long-term contract, under which the contractor will build various lengths of forest road in each of the five years of the contract.

Small-scale Harvesting Workshop

To help owners of small woodlands, we held a harvesting workshop near Inch in Grampian in September. Staff demonstrated a range of small scale equipment, including mini-forwarders and skidding systems. They also demonstrated a number of portable sawmill machines, and discussed the opportunities for owners to process timber on their own land. Around 50 people attended.

Forest Plans

We set up a Forest Plans Working Group during the year to carry out a review of Forest Plans, which were first introduced in July 1999. The review concluded that Forest Plans are well accepted, that they encourage a multi-purpose approach to forestry, and that they are often helpful to owners securing certification. However, improvements could be made by widening the scope of Forest Plans to include other management activity, changing the criteria for eligibility and improving guidance and training.

Year	Number of Applications Received	Number of Applications Accepted	Area of Applications Accepted (hectares)
1999	194	92	73,578
2000	119	76	42,089
2001	79	61	26,193
Totals	392	229	141,860

Timber Transport

Timber transport remains a critical issue for the industry. Both the Timber Transport Forum and local Timber Transport Groups, which include representatives of the private sector and local authorities, have been looking at the issue.

During the year, the Timber Transport Forum appointed a timber logistics officer. Work continued on the development of agreed route maps and on the Geographic Information System software for identifying pressure points (which was developed by Scottish Enterprise). New definitions were also launched which categorise roads as Agreed, For Consultation and Excluded. The Highland Timber Transport Group issued an updated set of Agreed Timber Transport Routes maps for Highland Region. The Timber Haulage Agreed Routes map for the Borders has also been adopted and published.

We opened a new loading facility alongside the railway line at Kinbrace in Sutherland, which gives access to previously landlocked timber at Naver forest. The facility, the result of a partnership of Forest Enterprise, Highland Council, English, Welsh and Scottish Railway and Railtrack, was assisted by Objective 1 funding. Timber reaches the loading bank along the B871, a road constructed for much of its length over deep peat, which is now being monitored by Highland Council through the Northern Periphery Programme Roadex Project, in which Forest Enterprise is a partner. Part of the project is designed to find the most effective running surface, using experiences gained in 2000 from a visit to Sweden by Highland and Argyll councillors and officials, along with representatives of the forest industry, to study road construction and rural roads issues. We will award a long-term contract in 2002 for removing 90,000 tonnes of timber over five years.

Iggesund Forestry bought and fully refurbished the west pier at Lochaline, with the aid of a Freight Facilities Grant from the Scottish Executive, and this is now providing an outlet for timber from Morven. The supply of Forest Enterprise timber helps to underpin the project, which was officially opened in June 2001 by Sarah Boyack MSP, the then Minister for Transport.

Maximising the Value of our Wood Resource (continued)

Despite very difficult trading conditions, the Skye and Raasay Shipping Contract, which is managed by John Gordon and Son, is now entering its third year, and has so far removed around 210,000 lorry miles from the fragile rural road network in the Highlands. Timber is shipped by sea from inaccessible island sites through the Pentland Firth to Inverness, from where it is transported by road to the sawmill in Nairn.

Forest Enterprise has worked hard to improve the management of safety in timber transport in partnership with the Health and Safety Executive, the Roundwood Haulage Working Party and other organisations.

Product Research and Development

There has been renewed interest in using wood to generate energy this year, and there has been increased government funding available for suitable projects. Planning permission was given for the Arran Biomass Power Plant, and Forest Enterprise and Border Biofuels have signed a supply agreement.

In partnership with the Forest Industries Cluster, we ran a seminar for more than 100 people at New Lanark in January. This brought together wood growers, people in the energy supply business, people with expertise in conservation technologies and those with knowledge of available financial support. Highland Council and a number of local communities have expressed interest in converting existing heating systems to use wood as a fuel.

Our Scottish Hardwood Timber Market Development Group worked on a wide range of development and promotion opportunities. These included research into the self build, renovation and home improvement markets; a publication on building with green oak; a business development seminar for small scale

wood processing companies; and the development of a hardwood plank grading scheme. All this activity was supported by the Forest Industries Cluster. In addition, the group contributed to an Engineering and Physical Sciences Research Council project that examined the supply of home grown timber products to the building industry. The project ran three seminars on marketing, valuing and grading hardwoods. This helped members of the Association of Scottish Hardwood Sawmillers to attend trade fairs and other promotional events.

The Forestry Commission ran a number of continuing professional development events for architects throughout the year, in conjunction with local chapters of the Royal Incorporation of Architects in Scotland. More than 420 people attended events in Edinburgh, Aberdeen, Dundee and Inverness. The events were designed to highlight opportunities for using wood and wood products including softwoods, board and engineered wood products, in construction. These events were followed by field visits for architects to see forest management and timber processing.

The Forestry Commission contributed to the production (by Highland Birchwoods) of the booklet *Timber Cladding in Scotland*, published by the Scottish Executive in March. We have also been working in partnership to prepare a bid for funding from the European Union Northern Periphery Programme for co-operation among Scotland, Norway and the Faroes, to research the use of timber as an external cladding material in exposed maritime climates.

Creating a Diverse Forest Resource for the Future

The Forestry Commission has been working to create diverse, high-quality forests that will meet the economic needs of future generations. This section of the report outlines some of the projects that have helped contribute to this.

The National Inventory of Woodland and Trees in Scotland

The summary report of the National Inventory of Woodland and Trees in Scotland, the most comprehensive survey of Scotland's woodland cover undertaken, was published 18 April 2002. The inventory shows that Scotland's woodland cover has increased by almost half since 1980, from fewer than a million hectares then to more than 1.3 million hectares now, and that it has more than trebled during the past 100 years, from an estimated five per cent of the land area a century ago to more than 17 per cent now. Other highlights of the inventory include:

- 🌲 conifer woodland is 69 per cent of all woodland, broadleaved 14 per cent, mixed woodland four per cent and open space in woodlands 11 per cent;
- 🌲 the main conifer species is Sitka spruce, which covers 528,000 hectares. The main broadleaved species is birch, which covers 78,000 hectares;
- 🌲 the area of broadleaved woodland has increased by 68 per cent since 1980, from 15 per cent of woodland trees to 18 per cent; and
- 🌲 Scotland has more than 18 million individual trees outside woodland.

Creation of New Woods and Forests

Most new planting is carried out by organisations (other than the Forestry Commission) and individuals and, during the year, grants were given for a total area of 7,883 hectares of new planting of which 2,934 hectares were conifers and 4,949 hectares were broadleaves. This included an area of native

pinewoods (and associated broadleaved species) of 2,352 hectares. The creation of new woodland by natural regeneration accounted for 953 hectares, or 12 per cent of the total area. Grants were given for restocking 2,881 hectares, of which 2,057 hectares were conifers and 824 hectares were broadleaves. Restocking by natural regeneration accounted for 743 hectares, or 26 per cent of the total area. Planting areas were down on previous years for a number of reasons, including the impact of foot and mouth restrictions (which hampered planning work) and low timber prices, as well as uncertainty caused by the review of grants.

The final round of the Central Scotland Challenge Fund (covering 2002-03) was divided into two events, which delayed the final judging event until 26 August 2002; this was done to maximise time for applications to be prepared in the aftermath of foot and mouth disease. While the 2000-01 challenge round attracted 17 applications of which 15 were accepted, covering 579 hectares and valued at £1.29 million demand for the first judging event of this year, held on 12 February 2002, was disappointing: we received just six bids. The judges recommended that five should be accepted, amounting to £377,000 and covering 159 hectares. To date, the Central Scotland Challenge Fund has awarded £4.76 million for more than 2,000 hectares of well-designed productive woodland in central Scotland. Demand for the final round is expected to be higher.

Judges for the 2001-02 round of the Grampian Challenge recommended funding for 551 hectares of well-designed productive woodland to be established on 21 properties in north-east Grampian. This brings the total approved funding, since the challenge started in 1997, to more than £8 million covering more than 3,500 hectares on 111 sites.

Creating a Diverse Forest Resource for the Future (continued)

To stimulate more demand, the boundary of the eligible area has been extended westwards for the final (2002-03) round, which will be judged in August 2002.

Forest Reproductive Material

The marketing of forest reproductive material (seeds, cones, cuttings and plants) of 13 species and one genus (poplar) is covered by two European Commission Directives and is controlled in Great Britain under the Forest Reproductive Material Regulations 1977. Under these regulations:

- 🌲 sources of basic material (such as stands of trees and seed orchards) have to meet certain standards and be registered;
- 🌲 seeds and plants have to be labelled; and
- 🌲 a clear audit trail has to be established so that the buyer can be assured that planting stock is correctly identified.

A new European Commission Directive, which revises the existing directives and extends the controls to more species, comes into force on 1 January 2003. We have consulted widely about how it will be put into effect and new regulations are being drafted. Only some of our native species (such as Scots pine) are covered by the directive. However, the Forestry Commission encourages the use of natural regeneration or locally sourced planting stock to restock ancient semi-natural woodlands or create new native woodlands. Our publication *Using Local Stock for Planting Native Trees and Shrubs* gives more details.

Sustainable Forest Management and Rural Development

The Forestry Commission, in collaboration with the Northern Ireland Forest Service, plans to publish a set of indicators of sustainable forestry during 2002.

This is likely to contain more than 30 indicators of the economic, social and environmental aspects of forestry in the United Kingdom. These indicators, which are linked to the United Kingdom Forestry Standard, will give information about the current state of and continuing trends in woodlands and their management, and allow us to monitor forestry's contribution to sustainable development. We have taken care to ensure that these indicators complement those prepared for monitoring progress in implementing the Scottish Forestry Strategy into action.

In November the World Wide Fund for Nature presented the Forestry Commission with its prestigious Gift to the Earth award, one of only 72 (at that time) presented worldwide. This recognised the work that had been done to promote certification of sustainable forestry.

During the year the Forestry Commission, through Forest Enterprise, continued to manage one of the largest areas of independently certified state-owned forests in the world. In the autumn, the second surveillance exercise showed that we continue to comply with the United Kingdom Woodland Assurance Scheme standard.

The independent certification of woodland entered a new stage of development last year, after the initial enthusiasm of 1999 and 2000. We assessed the benefits of certification and we made initial efforts to increase the number of people involved. The Scottish and United Kingdom governments showed increased interest in certification. The partners in the United Kingdom Woodland Assurance Scheme began work on a simplified standard and audit procedure for small woods, and its initial research showed that certification has led to measurable improvements in forest management.

Certification was an important part of the forestry programme in the Government's preparations for the World Summit, in particular in its commitment to buy wood and timber products only from legally logged and sustainably managed sources. Demand for certified products will increase, and there will be more opportunities for United Kingdom industry to capture market share from competitors offering timber that is not certified.

The Forestry Commission led the United Kingdom delegation to the first session of the United Nations Forum on Forests, which took place in June 2001 at the headquarters of the United Nations in New York. Delegates discussed and adopted decisions on the forum's long-term programme, a plan for carrying out the proposals agreed in the Intergovernmental Panel and Forum on Forests, and on beginning the forum's work with the Collaborative Partnership on Forests.

The second session of the forum, which took place in the same venue focused on the environmental aspects of sustainable forest management and emphasised the need for action. Delegates took a number of decisions on items such as forest degradation, regeneration and planted forests.

An important aim of the Forestry Commission is to protect Scotland's forests and encourage good management practice, and a key part of this is the control of tree-felling through felling licences. During the year we issued 415 felling licences covering a total volume of 615,310 m³ of timber (98 per cent from conifer species and two per cent from broadleaved species). Forestry Commission staff investigated 37 cases where a woodland owner may not have had permission for felling trees. One case was referred to the Procurator Fiscal.

Part of our work protecting Scotland's forests is being continually vigilant for signs of pests and diseases. During the year we were involved in monitoring a number of species.

The Eight-toothed Spruce Bark Beetle (*Ips typographus*)

The eight-toothed spruce bark beetle (*Ips typographus*) remains high on our list of threats, especially on imported coniferous wood from Europe. The Forestry Commission continued with its programme of around 200 traps located strategically at ports and other locations around Britain and six beetles were trapped (compared to 18 in the previous year) at five locations. There was no evidence of the beetle at any forest or other inland location.

Pine Wood Nematode

After the detection of the first outbreak of the pine wood nematode in Europe in 1999, a European Union programme of forest and import monitoring was carried out again this year, and 100 samples were analysed from around Britain. More than 6,000 samples were collected throughout the European Union and none of those collected from outside the known outbreak area in Portugal proved positive. The control measures put in place in Portugal to eradicate the pest appear to be working, at least in preventing any further spread. It is too early to say whether the pest could be eradicated in Europe.

Asian Longhorn Beetle

Despite the imposition of European Union measures in 2000, after action taken in Great Britain the previous year, the first outbreak of Asian longhorn beetle, which damages many hardwood and fruit trees, was reported from Austria in August. A number of Norway maple were found to be infested; these were destroyed and surveys are still being

Creating a Diverse Forest Resource for the Future (continued)

carried out. The likely pathway is, again, reported to be imported wooden packaging from the Far East. The Forestry Commission continued to monitor a number of high-risk locations around the country, but has not found any evidence of attempts by the beetle to establish itself here, despite continued findings of signs of the beetle in imported material.

The Great Spruce Bark Beetle (*Dendroctonus micans*)

We have reviewed the controls in place to prevent the spread of the great spruce bark beetle (*Dendroctonus micans*). Although there are no known outbreaks in Scotland yet, there were new cases in the Lake District. At the end of the financial year, we put on hold recommendations for change which we were planning to send to the Plant Health Working Group, which we run jointly with industry. These recommendations will be put forward in due course, and when approved or amended will be passed to the European Commission's Standing Committee on Plant Health for adoption.

In May 2001, a sawmill in England was found guilty of illegally moving untreated conifer bark from an area infested by *D. micans* into the protected zone. The defendant, who pled guilty to two charges, was fined £2,000 and costs of £3,000 were awarded.

Sudden Oak Death

We have continued to monitor the progress of sudden oak death (*Phytophthora ramorum*) in California. This disease attacks mainly tanoak, and also other genera of trees and shrubs including rhododendron and viburnum. We have investigated a number of suspicious oak deaths in this country, but have found no evidence of *P. ramorum*. However, the Department for Environment, Food and Rural Affairs announced in March that it had found the disease in five viburnum plants in a Sussex garden

centre. In mainland Europe, cases have been previously found in rhododendron and viburnum in the Netherlands and Germany, and new cases are coming to light in new locations in Germany. Forest Research is assessing the vulnerability of European oaks and other genera, and early results show that our oaks and other potential hardwood hosts are at less of a risk than trees in California.

Wooden Packaging Material

There has been a number of significant developments this year concerning the spread of pests in wooden packaging material, such as pallets, crates, cases, boxes, cable drums and dunnage (loose wood used to wedge or support cargo). In March, an international standard was adopted by the Interim Commission on Phytosanitary Measures, set up by the Food and Agriculture Organisation of the United Nations. We were involved in drawing up the standard, which took two years.

Timber Quality

Sawmillers are concerned about the quality of Sitka spruce growing now that will be harvested in the future, and about the proportion that can be classed as construction grade timber. At a meeting in Perth in October, which attracted a good number of sawmillers, we presented recent research on log straightness, a critical quality factor, in private and Forest Enterprise forests. The audience welcomed the results, and asked us to continue and broaden our researches.

Forestry and National Parks

We have been working with partners in the area of Scotland's first national park, in Loch Lomond and the Trossachs, to develop a Local Forestry Framework that would be included in the National Park Plan. The framework will give a context for decisions on forestry grant, licence proposals and other land use

planning issues, and will guide the development of forest plans in both the public and private forestry sector. Together with our partners, we commissioned Land Use Consultants to prepare the framework. During the past year, the company has produced a paper covering the key issues, carried out extensive stakeholder and community consultation on the key issues and on forestry matters in general, and produced the first draft of the framework. The wider steering group held two field meetings in May 2001 to help inform stakeholders about current issues facing the forestry and woodland sector. The main issues are: the scope for expanding woodlands, and the type of woodlands most appropriate to various places; the scope for improving current ways of clear felling; deer management; access and recreation issues; improving local economic benefits; timber transport; and communication and consultation on forest operations in the park. Encouragingly, there have been many positive comments made about the role that forests and woodlands play in the park, and we have been given a number of suggestions about how this could be improved.

In a similar way in the Cairngorms, the Forest and Woodland Framework has been helpful in discussions with Scottish Natural Heritage and Highland Council about the nature and location of woodland in the planned national park there.

Deer Management

A joint Forestry Commission and Deer Commission for Scotland working group met several times during the year, discussing guidelines on how to assess deer damage to woodlands and on how to define which forest areas are subject to deer damage. At the Northern Research Station of Forest Research, work is continuing to create models of the way deer populations develop.

A partnership seminar called Deer Management in Woodlands, which was designed to promote best practice for all who manage deer in Scotland's woods and forests, was held in Tulliallan, Fife, on 8 June 2001. The seminar attracted a great deal of interest, and more than 100 people took part. The seminar gave an opportunity for the Forestry Commission to highlight current policy (including the revised guidance note on deer and fencing), the role of woodland grants and Forest Enterprise's achievements in putting our policy into practice.

Forest Enterprise continues to work closely with the Deer Commission for Scotland, the Association of Deer Management Groups and other organisations to improve deer management and venison marketing, an essential piece of work after the foot and mouth outbreak.

In partnership with private sector organisations, Forest Enterprise is developing a Venison Quality Assurance Scheme. Venison packaging, developed in partnership with its biggest customer, is now being used by a number of private sector producers. After a recent external audit, Forest Enterprise is likely to be able to use the Forestry Stewardship Council logo on venison produced from sustainable managed Forestry Commission forests. All rangers have now won Level 1 deer management qualifications.

Making a Positive Contribution to the Environment

The Forestry Commission works to ensure that Scotland's trees, woods and forests make a positive contribution to the environment. This section outlines some of the ways in which we have done this during the past year.

Promoting Good Environmental Practice

The Forestry Commission is preparing a note that clarifies the types of woodlands covered by the various native woodland Habitat Action Plans, and describes the quantitative and qualitative targets of these plans in more detail; we hope to publish the note in 2002-03. We also took part in the United Kingdom wide exercise to review and rationalise all action plan targets. The proposals for long-term monitoring of the plans and assessing the condition of woodlands are still being discussed. Several members of staff took part in a pilot training course on assessment techniques.

We commissioned an independent report to assess the progress being made towards the native woodland Habitat Action Plan targets. This showed that the rate of progress was satisfactory in the upland oakwoods and native pinewoods plans. Because of the small number of samples taken, results for the other plan areas were not statistically reliable. The study also highlighted some operational problems.

The Forestry Commission, working with Scottish Natural Heritage, devised a method of sub-dividing the national native woodland Habitat Action Plan targets so that they could be used by Local Biodiversity Action Plan partnerships and also as part of the process of revising Indicative Forestry Strategies. The estimates of locally feasible targets were published in Scottish Forestry in June 2002, and will be used as the basis for local negotiation.

A draft Habitat Action Plan for upland birchwoods (applicable only in Scotland) was prepared and approved, after minor amendments and editing, by the United Kingdom Native Woodland Habitat Action Plan Co-ordinating Group. A final draft will be submitted to the United Kingdom Biodiversity Targets Group through the Joint Nature Conservancy Council. A draft action plan for lowland mixed deciduous woodlands (applicable throughout the United Kingdom) is being processed in a similar way. It is hoped that both action plans will be confirmed and published during 2002-03.

Peter Quelch, our Native Woodlands Adviser, continued to give field advice to Conservators, Forest Enterprise, Scottish Natural Heritage, voluntary sector organisations and others on native woodland management, as well as giving talks to seminars and conferences. He was guest speaker during a training course for the Irish Forest Service's new native woodland grant scheme, and at a community woodland conference in Dalbeattie in November. He also published an illustrated guide to Scottish wood pastures, which is available on our website at <http://www.forestry.gov.uk/scotland>. At the end of the year he was working on a practical guide to the stewardship of the Loch Sunart native woodlands. In addition he won an award for best article in Scottish Forestry during the year.

The Forestry Commission is the lead partner in two Species Action Plans in Scotland, for the Scottish wood ant and for Wilson's pouchwort, and is involved in putting several other plans into action. The action plan steering group for the Scottish wood ant did not meet during the year, but surveys have continued and the presence of the ant has been confirmed on all former sites. Similarly, specialist surveyors continue to search for new

locations of Wilson's pouchwort, which occurs in certain wooded gorges and coastal sites in west Scotland. Its distribution remains stable, but as with other rarities its future can be improved by increasing knowledge of its habitat requirements among landowners and the general public, while keeping the exact locations relatively confidential. The Native Woodland Discussion Group has set up a lower plants group, which holds regular field meetings and publishes field guides. Forest Research published a report called *The Identification of Priority Areas for Red Squirrel Management in Scotland*.

Two significant projects were completed during the year: the restoration of the Atlantic oakwoods project and the wet woods project. A joint conference, held in Fort William, attracted people from other parts of the United Kingdom and Europe. This two-day event, called *Restoring Natural Forest Habitats*, was run by the Caledonian Partnership. On the first day, 100 people heard a number of papers describing progress on the LIFE nature programme, from Atlantic oakwoods to bog woodlands and floodplain woodlands. Aspects of forest condition were studied, including woodland grazing. Papers from comparable examples in Sweden and Finland were also heard. The second day included two options for field visits: one to the Sunart oakwoods, and the other to the wet woodlands of Strathspey. A significant follow-up LIFE funded project has also been approved – called *Core Forest Sites* – which will support more woodland restoration work in various parts of Scotland.

The decline in the number of capercaillie continues to cause concern, but during the year the Forestry Commission was involved in a number of actions designed to help its recovery. We managed a

£770,000 Capercaillie Challenge, funded by the Scottish Executive (with a contribution from Scottish Natural Heritage). As a result, private landowners and Forest Enterprise removed or marked more than 200 kilometres of deer fences that could have posed a threat to capercaillie. In addition, the European Commission approved a LIFE programme worth £4.5 million. Under the Urgent Conservation Management for Scottish Capercaillie proposals, the Forestry Commission, working with Highland Birchwoods, Scottish Natural Heritage, the Royal Society for the Protection of Birds and landowners, will carry out a range of conservation works for capercaillie across its forests, including habitat improvement, predator control, monitoring and research.

In April, Highland Birchwoods held a well attended conference on montane scrub, which marked the end of a five-year project that has raised the profile of this valuable habitat and recorded where it occurs in Scotland.

The Forestry Commission has been regularly represented on the Scottish Biodiversity Group; this will continue with its successor, the Scottish Biodiversity Forum, which had its first meeting in February 2002. Alister Jones, our Biodiversity Officer, led a small working group analysing the Biodiversity Action Plan Lead Partner progress reports on all the United Kingdom Biodiversity Action Plan priority habitats and species that occur in Scotland. Their (unpublished) report was used as the basis of a subsequent report by Mary-Ann Smythe (of RSK-ERA) on the implementation of the United Kingdom plan in Scotland – *Biodiversity in Scotland: Progress Report*, published by the Scottish Executive's Central Research Unit in February 2002.

Making a Positive Contribution to the Environment (continued)

The Forestry Commission has also been an active partner in Local Biodiversity Action Planning. Conservancy staff attend Local Biodiversity Action Planning meetings, and are involved with developing local woodland action plans. Our staff have also liaised with the Scottish action plan co-ordinator, and taken part in training days.

Millennium Guide to Scotland's Woodland

Highland Birchwoods has developed a national inventory of semi-natural (and other) woodlands, which complements our National Inventory of Woodland and Trees. The new inventory is based on a Geographic Information System. The first phase of this project, which was funded as part of a European Commission LIFE Nature project, has been developed through a partnership of the Forestry Commission, Scottish Natural Heritage, Highland Birchwoods, the Scottish Wildlife Trust and the Royal Society for the Protection of Birds, partly funded by the Millennium Forest for Scotland.

Farm Woodlands

The Breadalbane Farm Forestry partnership initiative has been designed to encourage local farmers to make the most of opportunities in local woods to help sustain the local rural economy. It encourages new partnerships and more co-operative ways of working among the farming and forestry sectors. The partners include local farmers, the National Farmers' Union of Scotland, Perth and Kinross Council, the Scottish Agricultural College, and a number of voluntary organisations. Two pilot farm woodland plans have already been produced in the Breadalbane initiative area, and these will be the basis for bids to various funding agencies. We hope that as many as 15 plans like this will be produced.

In January this year, the Forestry Commission commissioned the Scottish Agricultural College to

produce guidance for farmers to help them integrate woodlands into the farmed landscape. The college has assembled a multi-disciplinary team, which is now looking at farm sites throughout Scotland to see how both new and existing woodlands can be established and managed for a variety of objectives. Their findings will be published later in 2002.

Guidance on Forest Habitat Networks, including Riparian Woodlands






We have prepared a guidance note on forest habitat networks and their potential use as strategic planning tools, which will be particularly relevant for targeting woodland grants in native woodlands. A booklet illustrated with case studies is being prepared by Scottish Natural Heritage, Environment Link and the Forestry and Timber Association. Several of the case studies feature diverse and high quality habitat networks based on river systems, such as the rivers Clyde, Cree and Ettrick and their associated riparian woodlands.

Water

In Dumfries and Galloway, two catchment management plans are being prepared, as part of a Local Biodiversity Action Plan, to ensure that the targets of the action plan are reached at catchment level. The two action plans cover the River Annan to the east and the Dee-Ken system in the central area. Conservancy and Forest Enterprise staff take part in both working groups, each of which are led by a part-time project officer. The draft of the Annan catchment co-ordination plan was put out to wider public consultation in October; final publication is due in 2002. The Dee-Ken catchment management plan was able to draw on and extend the methods used in the development of the Annan plan. People with a wide range of interests take part in this working group and the project officer is carrying out extensive consultation. The working group recently

held meetings to discuss specific issues relating to the Dee-Ken, including acidification of fresh water and nature tourism.

The Forestry Commission is also actively involved in the work of the Spey Catchment Steering Group. After a period of consultation in 2000-01, five working groups were formed to develop a catchment management plan for the Spey. The five groups cover:

-  water quality;
-  management and control of river water;
-  fisheries management;
-  land management and nature conservation; and
-  community development and recreation.

Conservancy staff took part in all groups, except fisheries, and Forest Enterprise was particularly involved in the work of the fourth and fifth groups. The steering group is now taking the outputs from the five working groups and developing a draft management plan working paper.

The European Union LIFE programme is funding a demonstration project in the catchments of the River Cree in Galloway, Scotland and the River Viskan, Sweden. In Scotland the partners include the Forestry Commission (including Forest Enterprise and Forest Research), the Scottish Environment Protection Agency, Galloway Fisheries Trust, Scottish Natural Heritage, Cree Valley Community Woodlands Trust and a number of other organisations with an interest in land management and its effect on freshwaters. The project is designed to demonstrate forestry planning processes and operational procedures that protect water quality and aquatic biodiversity in catchments that are heavily forested. The project is now in its final year, but behind schedule because so many monitoring scientists were redeployed or unable to travel during the foot

and mouth outbreak of 2001. We hope that the European Union will allow the final conference to be delayed until May 2003, so that monitoring exercises can be completed before the project ends.

Alternatives to Clear Felling

Forest Research staff ran several training courses at Aberfoyle (in predominantly spruce forests) and at Inshriach (in Scots pine forests) to help managers become familiar with the details of Continuous Cover Forestry management. Two of these courses included a visiting expert from Austria. Foresters from both Forest Enterprise and the private sector took part in the courses. We published guidance on the selection and management of Continuous Cover Forestry as Forestry Commission Information Note 40. A further note on the best way to monitor these stands has been prepared for publication later this year.

Work has already started on the detailed planning and training needed to operate the first formal large scale trial of Continuous Cover Forestry (also known as Alternatives To Clearfell) in Scotland. The trial area, which covers 700 hectares in the Tweed Valley forests, will be officially launched during 2002. Partners include Forest Research and Edinburgh University.

A seminar on establishing woodland on old mineral workings was held on 10 May in Newhouse, in central Scotland. The seminar highlighted the best ways to establish trees in a hostile environment, in order to improve the appearance of the landscape, give opportunities for recreation, provide wildlife habitats, and contribute to timber production. The seminar, and an associated field trip, was planned for 40 people, but it was oversubscribed, so we are planning other events to meet the demand.

Making a Positive Contribution to the Environment (continued)

Forest Enterprise and Native Woodlands

Forest Enterprise continues to make the single largest contribution to the management and restoration of ancient woodlands in Scotland. Since the launch of its native woodland strategies in the early 1990s, it has improved or restored more than 6,000 hectares by removing threats to these important habitats. This has involved clearing introduced conifers and invasive rhododendrons, and reducing excessive grazing by deer. Local surveys, the first step in the development of Forest District strategies for the restoration of plantations on ancient woodland sites, were completed in 2001-02.

If we think of a forest as a living being, then Forest Enterprise's planning system contributes main arteries to habitat networks at a landscape scale through strategic design plans, and adds veins and capillaries at forest and coupe scales through forest design plans. A process of identifying natural reserves in both native and introduced woods will ensure that sufficient old growth will be included in future as important parts of this system. These will give ecological continuity and act as important reservoirs for conserving important species, which need minimal disturbance, large old trees and deadwood.

Forest Enterprise is playing a significant role in the Scottish Forestry Alliance; this partnership also includes the Royal Society for the Protection of Birds and the Woodland Trust, with financial support from BP. The alliance approved two significant new projects involving the restoration and creation of significant areas of native woodlands at Kinloch on the Isle of Skye and Clashindarroch Forest in Aberdeenshire. BP has promised £1.8 million for the projects over the next eight years, which will lead to increased

biodiversity, community involvement, carbon sequestration as well as new woodlands.

Local and Native Woodland Initiatives

Highland Birchwoods was launched by Prince Charles ten years ago to develop projects reflecting the environmental, economic and social benefits of local forests. The project has concentrated on demonstration, woodland restoration, developing computerised geographic woodland inventory and adding value to local products. It has produced and contributed to a wide range of high quality publications, on topics such as birch management, montane scrub, building with timber and timber cladding and flooring. During the year, the organisation reviewed its aims. Although it will continue with its existing priorities, it will focus on support for Highland communities.

At the end of the year, it emerged that Tayside Native Woodlands was facing financial problems. The implications of this will be fully reported next year.

The Clyde Valley Woodland Partnership, which continues to build on successful work started in 1996, acts with a wide range of organisations to promote the many benefits of woodland management, including nature and landscape conservation, economic production, and recreation and access. A bid for European Union LIFE funding (to bring the 11 Scottish Agricultural College sites into favourable conservation status) was successful in 2001 and an application to the Heritage Lottery Fund is being prepared to further develop the Forest Habitat Network of the Clyde Valley.

Cree Valley Community Woodlands Trust manages the largest area of ancient semi-natural woodland in south west Scotland in partnership with Forest

Enterprise and other organisations. During the year it has been particularly active with the Dumfries and Galloway Council Activity Resource Centre, Newton Stewart, to encourage social inclusion through discussions on interpretation, providing wheelchair access facilities and woodland management. Community involvement with the project is developing through open community discussions of proposals, tree planting days and seed collecting; a range of groups have taken part in these activities. New private landowners have entered the project to improve the core area of the forest habitat network in the Cree valley. The trust has held discussions with Galloway Fisheries Trust on the further development of riparian corridors into the upland forests. Forest Enterprise has agreed new sites for involvement with the trust to improve areas of ancient semi-natural woodland. The trust also administers a European Union LIFE project called Demonstration of Sustainable Forestry to Protect Water Quality and Aquatic Diversity on behalf of the Forestry Commission, the Swedish Forestry Board and other organisations.

The Grampian Woodlands Company, set up in 1997, is a partnership of Aberdeenshire Council, the Forestry Commission, Scottish Natural Heritage and Moray Council. It works to support the development of the forestry industry throughout north east Scotland to provide economic, social and environmental benefits. It achieves this through the activities of its three projects: the Grampian Forest, the Grampian Woodlands Project and the Deeside Forest Project.

Creating Opportunities for More People to Enjoy Trees, Woods and Forests

The Forestry Commission works to create opportunities for more people to enjoy trees, woods and forests in Scotland. This section of the report outlines some of the ways in which we did that this year.

Access

The Forestry Commission continued to work closely with the Access Forum and the Scottish Executive on providing advice to help the development of the Outdoor Access Code and draft legislation.

An internal working group has been examining the implications for the management of Scotland's national forests (particularly in relation to access and public safety) through Forest Enterprise, and for the work of the Forestry Commission.

The Land Reform (Scotland) Bill (which gives a right of responsible access to land and water, as well as the right of communities and crofters to buy land) passed the first stage of Parliamentary approval on 20 March.

Forestry Commission staff are working with local authorities, both directly and through Local Access Forums. Moray and Aberdeenshire have identified their core path networks and Moray is now compiling a comprehensive computerised geographic database of all footpaths in its area. Forest Enterprise is providing digitised data for its estate, and Conservancy staff are helping Moray by identifying privately owned forests that have been given a grant for projects where recreation is a primary objective.

In Dumfries and Galloway, progress was delayed by foot and mouth disease. The local authority supports the access forum and its work with staff time and finance. Objective 2 funding is being used to market countryside access in the region and a series of walking leaflets for a number of communities are

being prepared. Some of these will feature forest and woodland walks. Work is also being carried out in the region to improve selected existing paths and to create new routes, particularly where these have a potential tourism benefit. This work is linked to the core path network development. In response to the foot and mouth outbreak, a simple tourism and environmental recovery grant scheme was launched and a number of farm routes have been improved as a result.

In East Ayrshire, an outdoor access strategy is being prepared that takes into consideration sustainable transport, health, environmental regeneration and tourism issues. Pilot studies are being carried out to develop core path networks around six communities.

The Forestry Commission web pages are being revised to make the information more accessible and relevant to the needs of users. As part of this task, the contents of the educational resource for teachers, The Tree Trunk On-line, are being reviewed and updated; this is a joint project with Scottish Natural Heritage and the Central Scotland Countryside Trust. There is growing interest in adapting this resource for use in Wales and England.

Promoting opportunities

On 15 May, Rhona Brankin MSP, then Forestry Minister, officially opened Leanachan Trailquest by waving off a group of pupils from Lochaber High School along the new trail system. The 35 kilometres of trails are the result of almost ten years of partnership working to develop cycling in Leanachan, particularly with local clubs and businesses. This supported Forest Enterprise to devise and build a range of routes suitable for all ages and skills. Support for the project came from many partners including: European Agricultural Guidance and Guarantee Fund under the Highlands

and Islands Objective 1 Partnership Programme, Sport Scotland, Lochaber Enterprise, Nevis Range, Offbeatbikes, West Highland Wheelers and Alcan Smelting and Power United Kingdom.

The final year of the Western Pine and Oakwood Restoration and Interpretation Project resulted in several recreation facilities, including walks, car parks and interpretation panels being developed in native woodlands managed by Forest Enterprise across the west coast of Scotland. This included a raised viewpoint at Chia-aig Waterfall, overlooking the pinewoods of Loch Arkaig; a guidebook and map of the Glengarry pinewoods; forest walks at Glen Creran and on Scallastle on Mull; and the development of footpath projects at Glenfinnan and Totaig. The project was funded by the European Agricultural Guidance and Guarantee Fund under the Highlands and Islands Objective 1 Partnership Programme. The contribution of local communities in developing the plans for these facilities was greatly appreciated. Similar input has been received from communities across Scotland, and this allowed greater provision of new facilities and events than would otherwise have been the case.

The Bennachie Sculpture Trail in Buchan was one of only five Scottish projects to be mentioned in this year's round of Civic Trust awards for architecture and planning. The award noted: "These 12 sculptures scattered throughout the Bennachie Forest offer a fascinating and thought provoking approach to telling the story of the forest. Local artists, using local materials, have created artworks that inspire walkers to consider and interpret the forest, its uses and the local landscape."

On 29 May, the Rosehall Community Trails in Sutherland were officially opened. This was a community led project by the Rosehall Community

Action Group, which in partnership with Forest Enterprise and Fountain Forestry has created a new network of waymarked forest walks and bike trails at Rosehall near Lairg. The interpretation along the trail was developed by local school children and is based on the theme of wild animals and bird life in the forest.

Forest Enterprise has worked in partnership with Highland Council and Scottish Natural Heritage to help construct those sections of the new Great Glen Way long distance route that are within woodlands managed by Forest Enterprise. The new route, which is more than 115 kilometres long, will be a significant tourist asset, linking Fort William and Inverness.

Forestry and Tourism

Syd House, the Conservator in Perth, has led the development of Treefest Scotland 2002. This is a year-long, Scotland-wide festival of more than 750 events celebrating trees, woods and forests. The Forestry Commission has provided the core co-ordinating team, including the co-ordinator, publicity officer and designer, who are supported by a network of one national and six regional steering groups drawn from key partner organisations in the public, private and voluntary sectors. As well as running a wide range of events in its own forests, the Forestry Commission is also organising the Heritage Trees of Scotland and Scotland's Favourite Trees projects as contributions to Treefest. The festival is being promoted to the public through an inter-active website, the news media, posters, leaflets and other means, and is being supported by European Regional Development Fund Objective 2 funding. Details are available on its own website: <http://www.treefestscotland2002.org.uk>.

The Perthshire Big Tree Country partnership initiative, which is designed to promote the area's rich tree

Creating Opportunities for More People to Enjoy Trees, Woods and Forests

and forest heritage to visitors, continues to attract considerable attention and support. Projects completed include gateway interpretive panels, a feasibility study on improving the visitor experience at the Hermitage near Dunkeld, branding local tourist buses, and a project to improve the interpretation of the David Douglas memorial in Scone near Perth.

Forest Enterprise has been continuing to work with area tourist boards to increase the contribution that forestry makes to tourism. For example, in the Highlands, Forest Enterprise worked with the Highlands of Scotland Tourist Board to develop targets for inclusion in Tourism in the Highlands... Towards 2005 – A Strategy for a Dynamic, Responsive and Sustainable Industry. In Lochaber Forest District, display panels have been put into the tourism information centres in Strontian and Lochaber, and training days arranged with information centre staff.

We held discussions with VisitScotland about how to make the most of forests and the leisure opportunities in forests when marketing Scotland as a tourist destination. For example, Forest Enterprise is the lead partner in the Seven Stanes specialist mountain biking project in the south of Scotland. The project attracted £2 million of Objective 2 funding as part of the foot and mouth disease recovery programme. The partnership will build seven new trails of varying standards of difficulty, including one to competition standard, and the project should attract substantial numbers of visitors, which will increase tourist income for local rural economies.

Through its Forest Holidays business unit, Forest Enterprise manages two sites with cabins and six campsites. Although this year has been challenging, sites recovered quickly after being closed because

of foot and mouth disease. We were unable to agree Private Finance Initiative funding for modernising and expanding the Strathyre cabin site, and the Scottish Executive funded this project. There are currently 17 cabins here, and the local authority has granted planning permission for another 18. Work will start during winter 2002. Loch Awe is to be sold as a going concern. Caldons campsite was closed at the end of the 2001 season, because of its remoteness and lack of infrastructure, but we have been holding discussions with a potential private sector manager to reopen for the main 2002 season. At Balmacara, we may consider a local community bid for the site. The four remaining campsites need to be modernised, and we are considering our options for this.

Helping Communities Benefit from Woods and Forests

The Forestry Commission works to help communities benefit from woods and forests. This section outlines some of the ways in which we have done this in 2001-02.

Forestry for People Advisory Panel and its Work

The Forestry for People Advisory Panel was set up in October 2000, and will meet for three years. It has met five times this year. The panel advises the Forestry Commissioners on:

- 🌲 optimising the benefits from forestry for local communities, especially in rural areas;
- 🌲 stimulating greater community involvement in forestry; and
- 🌲 developing and disseminating best practice in the encouragement and management of community involvement.

The panel's response to the grants review set out three principles: public access to grant award information, links between grant award and public benefit, and local economic gain. Its recommendations included the tailoring of community and management grants to offer incentives for social forestry and woodland management.

The panel gave us advice about indicators of social aspects of the Scottish Forestry Strategy, about the United Kingdom Indicators of Sustainable Forestry, and about the performance measures for the social aspects of forestry following the Quinquennial Review of Forest Enterprise. The thrust of the panel's advice has been to sharpen the indicators to show the importance of community benefits.

The panel has also established a programme of priority projects, managed by sub-groups, to which the panel as a whole also contributes. There are four programme areas, covering legal structures,

community involvement, communications and local projects.

Review of legal structures: This project will identify which elements of the legislation and regulations prevent us achieving greater community involvement in land currently managed by Forest Enterprise.

Forest Enterprise and community involvement in Scotland: The panel commissioned Dr Mary Hobley, a consultant with international rural development and forestry experience, to carry out a review of Forest Enterprise experiences of developing approaches to community involvement, in a project which was part funded by the World Wide Fund for Nature. Her report identified seven main areas for action:

- 🌲 ensuring consistency across the organisation from strategy to style;
- 🌲 improving the skills of staff;
- 🌲 supporting active learning by communities;
- 🌲 clarifying Forest Enterprise's rural development role;
- 🌲 assembling evidence about forestry's contribution to rural development through community involvement;
- 🌲 encouraging more active community involvement; and
- 🌲 analysing the long-term implications of Forest Enterprise support to communities, so as to promote greater self-reliance.

Communications: This project will provide more publicity for the numerous case studies relating to community involvement, as well as the distribution of general information on the subject. It will focus on what communities seek from communications, and on the communication needs of private forestry interests.

Helping Communities Benefit from Woods and Forests (continued)

Local development projects: The panel sees the creation of jobs through local forest-based economic development as a key issue. In partnership with Forest Enterprise and other important stakeholders, the panel will design and carry out three pilot projects in areas that represent a spectrum of community engagement, and that give a lowland-Highland spread. The project steering group has now chosen three provisional pilot study groups, which are North Sutherland Community Forest Trust, Minard Community Woodland Trust in Argyll, and Balloch Wood Community Project in Galloway.

Understanding and Working with Communities

The Forestry Commission continued to support the involvement of communities in forestry through funding community owned woods and groups, such as the North Highland Forest Trust. The Forestry Commission also supported the Institute of Chartered Foresters to hold a seminar on involving people in forestry. A rural development adviser for Scotland has been appointed to help co-ordinate the Forestry Commission's work on the community benefit objectives of the Scottish Forestry Strategy.

Crofter forestry continues to provide crofters with an effective way of diversifying agricultural activity on their common grazings. During the year, almost 900 hectares were planted in 13 crofter forestry schemes; another 250 hectares have been approved but not yet planted. Many of these schemes consist predominantly of native species. The schemes will provide shelter and benefits for wildlife, as well as making a contribution to the rural economy. Crofter forestry is a good example of local communities working together. The rights of crofters to timber are being considered as part of the current land reform debate.

In May 2001 a Forestry Commission working group covering Great Britain made a number of recommendations on improving the way in which forestry grant licence applicants and Forest Enterprise consult with local communities and neighbours who might be affected by these applications. Its five main recommendations were:

- 🌲 local authorities should be invited to represent the views of local communities;
- 🌲 the Public Register should be improved to make it more user-friendly. The public should be given more information about how we award grants and licences;
- 🌲 people should have free access (through our website) to the information about constraints, and associated maps, held by the Forestry Commission;
- 🌲 training should be given to Forestry Commission and Scottish Executive staff on the best ways of involving local communities; and
- 🌲 clearer advice and information should be given to applicants and their agents about what liaison with neighbours and the local community they are expected to carry out.

In Scotland, these recommendations have now been incorporated into the review of the Woodland Grants Scheme and the Farm Woodland Premium Scheme, and will be part of the new approach to forestry grants and licences and their administration following the review, which is intended to be in place for 2003-04.

During the year, we secured funding for a one year appointment of a Forest Education Initiative co-ordinator for Scotland in 2002-03. The co-ordinator will work with Forest Education Initiative Cluster

Groups, teachers and the forest industries to help raise awareness of the role and value of trees, woods, forests and the forestry industry in Scotland.

The open and inclusive approach to consultation practised by Forest Enterprise in its Strategic Plans and Design Plans is leading to increased partnership working across a range of activities, and fostering genuine community spirit in a number of areas. It is increasingly being recognised as a good example of best practice.

A two-year partnership project to pilot the use of community forest facilitators came to a successful end. The facilitators were based at Fort Augustus and Dornoch, organised by partnership involving Forest Enterprise, Highland Birchwoods, Scottish Natural Heritage and the Highland and Islands Enterprise Community Land Unit, using funding from European Union Objective 1 Structural Funds. The main lessons learned will be applied to our work locally and through projects of the Forestry Commission's Forestry for People Panel.

The Callendar Wood Group has carried out a good deal of work in Callendar Wood, Falkirk. The group varies in size, but is usually ten to 12 strong, and has held a number of work days throughout the year, carrying out tasks such as eradicating rhododendrons, drainage and tree planting. The group has organised guided walks, featuring archaeology, history and forestry. School classes have also visited the wood for environmental education, and Forest Enterprise and the Central Scotland Countryside Trust worked together to arrange a fun day in the wood in June, which included bodgers (people who turn wood using pole lathes) and sculptors.

Using our Resources Efficiently

Forestry Commission Organisation and People

People

The Forestry Commission, including its agencies, employs more than 1,500 people in Scotland, including staff responsible for work throughout Britain who work in Silvan House, (its Great Britain headquarters) in Edinburgh, in the Northern Research Station at Roslin, and in a number of other units elsewhere in Scotland.

Staff Numbers

Forestry Commission National Office for Scotland and Conservancies	88
Forest Enterprise, outwith HQ	778
Civil Engineering, Mechanical Engineering, Nurseries, and Forest Holidays	217
Forestry Commission HQ (Includes Forestry Training Services and Plant Health)	357
Forest Research	118
Total Forestry Commission staff in Scotland	1,558

Forestry Devolution Review

On 22 January, in response to a parliamentary question, Scottish Forestry Minister Allan Wilson announced an agreement with Ministers in England and Wales to review the options for further decentralising forestry policy and management.

The forestry devolution review is considering the current administrative arrangements for delivering sustainable forestry policies in Scotland, England and Wales and the UK's international forestry commitments, including options for further devolution of these arrangements. The review is being undertaken by officials from the Forestry Commission, Scottish Executive, the Department

for Environment, Food and Rural Affairs, the National Assembly for Wales, the Cabinet Office and the Treasury. The Northern Ireland Department of Agriculture and Rural Development is also involved in the review. A consultation document was issued by the Review Group in February with responses due by the end of April 2002. The Review Group submitted its recommendations during the summer (following the period covered by this report).

Modernising Government

We continued to improve the delivery of our services under the banner of the Modernising Government White Paper (Command 4310) and the programme of reform of the Civil Service.

The highlight of the year was the launch of a programme of change that was designed primarily to bring together all our staff to achieve improvements in Britain's forestry. We held 21 focus groups across Scotland, and more than half our staff attended one. From this, we developed an action plan that confirmed that the Forestry Commission needed:

- 🌱 clearer direction and leadership, so that all staff know our purpose and values;
- 🌱 better people management skills and working relationships, so that staff can develop and make better contributions;
- 🌱 better communications, so that we communicate in a more informal way, we have more face to face communication and more two-way communication; and
- 🌱 more empowerment and trust, so that we can develop more flexible ways of working and a more adaptable organisation.

By the end of the year, the plan was well on the way to being put into action. We will review how effective it is by repeating in autumn 2002 a staff survey we first carried out in September 2000. Other important achievements during the year were:

- 🌱 continuing to develop the leadership skills of our senior and middle managers; more than 250 managers took part in leadership events;
- 🌱 following-up the leadership events, to check that managers were given the tools they need to lead their teams through change;
- 🌱 making more improvements in the diversity of our staffing; this included appointing the first woman to a senior Civil Service post in our organisation;
- 🌱 taking part in the Public Service Leaders Scheme, organised nationally by the Cabinet Office; one member of staff was in the first group of 100 leaders;
- 🌱 increasing staff exchange with other parts of the Civil Service and outside bodies; during the year, five seconded staff joined us and 12 of our staff left on secondment to other bodies;
- 🌱 starting a business improvement process, based on the EFQM (formerly the European Foundation for Quality Management) model, in 13 parts of the organisation;
- 🌱 carrying out 360 degree feedback for all senior Civil Service staff and introducing the new service-wide pay and performance management system for senior staff;
- 🌱 completing the second stage of the five-yearly review of Forest Enterprise and starting the first stage of the review of Forest Research;

- 🌱 putting into action our e-business strategy, which is designed to improve the electronic delivery of our services to the public and business, for example by developing standards for the transfer of data to and from timber customers. This puts us well on course to meet the government-wide target of allowing all relevant services to be provided electronically by 2005; and
- 🌱 improving our understanding of the management of risk, by preparing a risk management statement ready for publication later in 2002.

Administration of Grant Schemes

Review of the Administration of Grants and Licences Administration

As part of our commitment to provide the best possible service to our customers, we commissioned a review of the way we operate our grants and licences. The review recommended that we should revise our plans for a new computer system to meet the future needs of our grants and licences operations. After consulting with our customers, and carrying out extensive business analysis, we will shortly begin to develop a new system that will allow us to exchange visual and text data with applicants, and to operate a better grant application and payment process.

This is a very complex development, and we have brought in external expertise, knowledge and guidance to allow us to deliver this system. We estimate that the new system will take two years to develop and put into operation. We applied for and were given funding for this project from the Invest to Save Fund (run by the Treasury and the Cabinet Office).

Using our Resources Efficiently (continued)

In the meantime, we have been looking at our existing system in order to make short-term improvements in our services to customers, including improved electronic application forms, contracts and payments and a map-based public register for people with whom we consult.

Our website: <http://www.forestry.gov.uk>

Our use of the internet as a prime communications tool proved valuable at the start of the year, when foot and mouth disease affected the countryside. Our website became a focus of attention when people looked for places to go in the countryside. Daily updates kept people informed about woods that were open to visitors, and other pages kept contractors up to date with latest developments and guidance. Our website increased in popularity during the year, from around 30,000 pages read a month to a peak of more than 30,000 pages read a day, and won praise from a variety of media outlets, including Amazon (<http://www.amazon.co.uk>), for the accuracy and usefulness of its information. We continue to develop the site, and around 80 local publishers across the organisation add to and maintain its content. High-profile developments have included support for Forest Enterprise campaigns and a separate website for the Treefest 2002 event (<http://www.treefestscotland2002.org.uk>).

Senior Staff Appointments

The Rt Hon Lord Clark of Windermere replaced Sir Peter Hutchison Bt CBE as Chairman at the close of his term of office in December 2001.

Wilma Harper replaced Eddie Arthurs as Director, Finance and Corporate Planning when he retired in January 2002.

Awards

The Forestry Commission and its agency Forest Enterprise were given a Gift to the Earth award by the World Wide Fund for Nature for their work in forest certification and for good forest management.

The Forestry Commission was commended in the Business Commitment to the Environment Awards for its exemplary efforts in creating environmentally sound, socially acceptable and sustainable forests.

David Bills, Director General, was awarded the CBE.

Tay Forest District received the Scottish Environment Protection Agency's National Habitat Enhancement Initiative Award for its work in improving habitats for great crested newts in Pitmedden Forest south of Perth.

Grampian Conservancy, along with Moray Council, received a Scottish Executive-Royal Town Planning Institute commendation in the Scottish Awards for Quality in Planning for its Moray Indicative Forestry Strategy.

Health and Safety

The Forestry Commission is committed 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. We are also committed to taking good care of the welfare of our employees.

During the year, we acted to continue the work of the Health and Safety Executive initiative on managing health and safety in forestry. In particular, we have worked to carry the initiative into health and safety in timber transport. We have worked in partnership with the private sector and with other government departments to fund research to improve the safety of cross loaded timber.

We have carried out health and safety support visits to all our Forest Districts and most Conservancies. We have encouraged Forest Districts and Conservancies to set the agenda and used the visits to address problems that staff identified when managing health and safety. Issues raised included public access through worksites, risk assessments and how to make them realistic managing recreation and contract management.

In Scotland, the number of reportable accidents (those causing incapacity for more than three days) was recorded as 0.77 per 100 employees for the year 2001-02, an encouraging decline in accident rates. (The equivalent figure for the year 2000-01 is 1.83. In previous years figures were not collected for each country, and this estimate was derived by assembling figures for the different units).

Appendix 1

National Committee, Regional Advisory Committees, advisory panel on Forestry for People, and Scottish Forestry Forum Steering Group – membership at 31 March 2002.

National Committee

Tom Bruce Jones (Chairman), Dr Victoria Edwards, John James OBE, Duncan Macniven TD, Professor Hugh Miller, Andrew Raven, Gareth Wardell, John Wightman CVO CBE. Secretary to the committee: Ann Alexander. The committee did not meet during the year.

Regional Advisory Committees

North: Highland and Grampian Conservancies

Professor Hugh Miller (Chairman), Dick Balharry, Claire Belshaw, Michael Chapman, Cllr Basil Dunlop, Barrie Hudson, Tom Inglis, Michael Leslie, Alastair MacLennan, Dr Peter Tilbrook, Dr Una Urquhart, Jonathan Wordsworth. Secretary to the committee: Ann Alexander. The committee met on 10 August 2001 and 4 March 2002.

Mid: Strathclyde and Perth Conservancies

Shireen Chambers (Chairperson), Cllr Robin Banks, Dr Andrew Barbour, Robert Beaney, Elspeth Christie, Alan Christison, Angela Douglas, Sandy Kerr, Lachlan MacLean, Jim McCarthy, George McRobbie, James Stormonth-Darling. Secretary to the committee: Ann Alexander. The committee met on 24 April and 10 September 2001 and 5 March 2002.

South: South West Scotland and Lothian and Borders Conservancies

John Wightman CVO CBE (Chairman), Dr Philip Ashmole, Chris Badenoch, Graham Booth, Christopher Cloy, Cllr Robert Higgins, Graeme Hodgson, Dr Peter Hopkins, Robert Kay CBE, Deborra Playfair, Guy Watt, Rog Wood. Secretary to the committee: Ann Alexander. The committee met on 6 September 2001 and 5 March 2002.

During the year the Regional Advisory Committees gave advice on the quinquennial review of Forest Research, the forestry devolution review and the review of the Woodland Grant Scheme and Farm Woodland Premium Scheme.

Under the Environmental Impact Assessment (Forestry) (Scotland) Regulations, Environmental Impact Assessments are required where forestry projects such as initial afforestation, deforestation, forest roads and forest quarries are likely to have a significant effect on the environment. During the year eight assessments were accepted by the Forestry Commission in Scotland. In two cases, the Scottish Executive was (at the end of the year) considering appeals against decisions we took under these regulations.

Advisory Panel on Forestry for People

Andrew Raven (Chairman), Ruth Anderson (Secretary), Andrew Campbell, Cllr Margaret Davidson, Penny Edwards, Munro Gauld, Dr Campbell Gemmell*, Dr Peter Hopkins, Andy Inglis, Willie McGhee, Donald McPhillimy, Richard Munday, Sheila Nairn, Sheila Ritchie, Cllr Willie (Ian) Ross.

The panel met on 23 April, 19 June, 27 and 28 September and 14 December 2001 and 22 March 2002.

*Dr Campbell Gemmell resigned from the panel at the end of the calendar year.

Members of the Scottish Hardwood Timber Market Development Group

Guy Watt (Chair), Mike Alexander*, Eoin Cox, Ivor Davies, Jamie Farquhar, Frank Gamwell, Bill MacDonald, Gavin Munro, Derek Nelson (Secretary), Mark Williams. The group met on 17 May and 8 October 2001 and 11 February 2002.

*Mike Alexander resigned from the group in February.

Scottish Forestry Forum Steering Group

At the Minister's request, the Forestry Commission brought together people representing a number of interests to help to set up the Scottish Forestry Forum, which will have its first meeting in November 2002. The steering group members were:

Michael Bruce	Forestry and Timber Association
Craig Campbell	National Farmers' Union of Scotland
Jamie Farquhar	Forestry and Timber Association
Diana Gilbert	Highland Birchwoods
Gordon Gray Stephens	Scottish Native Woodlands
Tim Hall	Woodland Trust
Alan Hampson	Scottish Natural Heritage
Adam Harrison	World Wide Fund for Nature Scotland
Barrie Hudson	Forestry Contracting Association
Richard Johnstone	The Royal Society for the Protection of Birds
Nick Marshall	Reforestation Scotland
Ian McCall	Ramblers' Association
Willie McGhee	Forestry for People Panel
Michael Osborne	Scottish Woodlands
Nick Reiter	Deer Commission for Scotland
Gerry Selkirk	Scottish Executive Environment and Rural Affairs Department
David Sulman	United Kingdom Forest Products Association
Cedric Wilkins	Scottish Enterprise
Peter Wilson	Forest Industries Development Council
Tom Bruce-Jones	Forestry Commissioner
Andrew Raven	Forestry Commissioner
David Henderson-Howat	Forestry Commission (Chairman)
Richard Broadhurst	Forestry Commission
Nikki Johnstone	Forestry Commission

The panel met on 20 August and 15 November 2001, and 25 January and 1 May 2002.

Appendix 2

Selected Extracts from Speeches and Press Releases

Minard Partnership Comes of Age

Rhona Brankin, MSP, the then Forestry Minister, endorsed the aims of a partnership between Forest Enterprise and Minard Community Woodland Trust on 18 April. She said:

“Getting local people involved with the land where they live and work is one of our key aims. A central objective of the Scottish Forestry Strategy, the Scottish Executive’s framework for forestry, is to increase the economic, environmental and social benefits of our forests.

We want to increase the proportion of forests and woodlands in Scotland not only to produce timber but to enhance the quality and value of the landscape. Community support is crucial – forests and woodlands should be managed in ways that enjoy broad public support, with mechanisms for participation and for sharing and explaining views.

Forest Enterprise is deeply committed to consulting with communities and enabling people to become involved in their local forest or woodland, and Minard is an excellent example of how this can be achieved.

It is heartening to see how the partnership between Forest Enterprise and Minard Community Trust is already flourishing and bearing fruit. The innovative management plan drawn up by the partners will see the forest become an even more attractive and valuable resource for the local community.”

Forests are Essential to Scotland’s Rural Economy

The Scottish Executive is determined to ensure that it contributes effectively to rural development, Rhona Brankin, MSP, the then Forestry Minister, said in Brussels on 24 April. She told European Union officials and forestry leaders:

“The needs and interests of rural Scotland are at the heart of the Scottish Executive’s policies and priorities. Forests are essential to Scotland’s rural economy, and I am determined to ensure that our forests and woods in Scotland contribute effectively to rural development.

There are many ways in which this can be achieved. There is direct employment in forestry and wood processing and related jobs, many of them based in rural villages and small towns.

We are also keen to do more to develop smaller-scale niche business opportunities. I’m sure we can also do more to promote greater integration between forestry and agriculture, so that forestry can play its part as an alternative or supplementary activity to farming.

The current outbreak of foot and mouth disease has highlighted the critical inter-dependence between access to the countryside and tourism. Access to the forest is an important component, and forest recreation facilities can provide extra activities for visitors, encouraging them to spend longer in the area.

A good many tourist businesses depend to a greater or lesser extent on forests that offer simple activities such as walking and mountain biking as well as scope for more specialist pursuits such as guided tours, deer stalking and even husky dog rallies. Woods and forests are also part of the visual ‘product’ used by tourist boards to attract visitors to Scotland.”

Treefest Scotland 2002

Rhona Brankin, MSP, the then Forestry Minister announced plans for Treefest Scotland 2002, a year-long party to celebrate Scotland’s trees, woods and forests, on 25 June 2001. She said:

“What an important time it is to take advantage of our natural assets. Foot and mouth, as any tourist operator will tell you, has enormously affected the tourism business, particularly in rural areas.

I believe that the forestry sector, working together with the tourism industry under the Treefest banner, can be a major part of the recovery strategy in 2002 and lead the way in demonstrating how to combine visitor and natural resource management in a sustainable and profitable way.

But Treefest is not just about visitors and recreation. It is also about raising the profile of Scotland’s growing forestry sector and its increasing importance. At a time when sustainable development is fundamental to any economic policy it is gratifying to think that after a long period of public and private investment, Scotland is about to become a net exporter of timber.

By pushing all the advantages of timber as a ‘green’ product and emphasising the contribution that woodlands make to the quality of life in Scotland, we can create a ‘feel-good’ factor about Scottish timber that will encourage more people to use wood and help safeguard and increase the 10,000 or so jobs that depend on Scotland’s forests.”

Appendix 2 (continued)

Forestry Forum for Scotland

Rhona Brankin, MSP, the then Forestry Minister, announced plans to set up the Forestry Forum for Scotland on 13 September, in answer to a Parliamentary Question. She told MSPs:

“I am asking the Forestry Commission to bring together different groups with an interest in the social, economic and environmental benefits of forestry, to establish a Scottish Forestry Forum. Key tasks of the Forum will be to promote discussion about how to maximise the social, economic and environmental benefits of forestry in Scotland; to consider how Scottish forestry can best contribute to the wider rural development agenda in Scotland; and to ensure that successful progress is made in taking forward the Scottish Forestry Strategy.

The Forum will also have a role in disseminating information about implementation of the Strategy; identifying areas where more effort is needed; and, when the time comes in three or four years' time, assisting with the review of the Strategy. The Forum will probably meet about once a year, and it will be supported by a steering group that will meet more frequently.”

Wood is Good

Rhona Brankin, MSP, the then Forestry Minister, wrote in her foreword to *Designing with Timber*, which was published on 11 October:

“Wood is good. It is a natural, environmentally friendly material. It is non-toxic, biodegradable, recyclable and requires comparatively little energy to process.

When it is grown sustainably, as it is here in Scotland, it competes strongly on environmental terms with alternative construction materials. Thanks to sustainable forestry practices in Scotland, we are growing more timber than we are harvesting.

And, by encouraging people to buy Scottish timber products, we give Scotland's woodland owners a sound financial reason to look after woodlands essential to wildlife and the landscape.

I very much welcome publication of *Designing with Timber*, which should encourage the architectural and forest industries to work more closely together. This should bring clear benefits to Scotland's environment, economy and people.”

Sustainable Forestry

Allan Wilson, the Forestry Minister, speaking at a conference in Dunblane on December 5 to mark the first year of the Scottish Forest Industries Cluster, said:

“I know that progress could not have been made without the enthusiasm and involvement of a great number of people and organisations. This Cluster work is bringing people together, industry to industry; private business and Government; academia and industrialists – often for the first time. I believe we are beginning to see some evidence of how worthwhile this sort of engagement and dialogue can be.

There is much that government and industry can do together to move sustainability forward – and clearly the forest industries are set to be a prime mover in this endeavour. Promoting the use of timber is key and highlighting its many advantages over other materials is a trump card which the industry needs to play. Scotland's forests are one of the nation's key renewable resources. With sustainability now at the heart of our policy, we must continue to embrace and develop the opportunities which the use of wood presents.

I was very pleased to hear of the recent Gift to the Earth award presented to the Forestry Commission and Forest Enterprise by WWF. The award – one of only 70 ever presented globally – recognises the key role that the two bodies have played in progressing independent certification and sustainable forest management in Scotland and the rest of the country, something that WWF regards as a globally significant conservation action.

Through their actions they have made Scotland one of the leading countries worldwide in terms of percentage of total forest certified to Forest Stewardship Council (FSC) standards. With the private sector showing increasing interest in certification we have an excellent opportunity to market timber and other forest products as coming from independently certified sustainably managed forests. We need to capitalise on that.”

Appendix 2 (continued)

Capercaillie and Deer Fences

Announcing the results of a £770,000 funding package from the Scottish Executive and Scottish Natural Heritage on 21 December, Allan Wilson, the Forestry Minister, said:

“This is good news for the capercaillie, which is a symbol of Scotland’s woodland heritage. I am delighted that so many woodland owners have come forward to take up this offer to help them protect the capercaillie in their woods.

Research has shown that the serious decline in the capercaillie population is due to a number of causes, including loss of habitat, predation by crows and foxes, and climate change – in particular a string of wet, cold breeding seasons that have caused high numbers of chick deaths. Some of these reasons, such as climate change and bad weather, we cannot do anything about, while we have made good progress on others, such as reversing habitat loss.

However, collisions with deer fences have also been identified as a significant cause of capercaillie deaths, and the Executive was pleased to make this special funding available to help with the costs of removing and marking fences that pose a risk to existing populations of the birds.

As we move into the year of Treefest Scotland 2002, when Scotland will be celebrating its rich heritage of trees, woods and forests, it is pleasing to be able to report that the prospects for this flagship species of the Scottish woods are looking that bit better as a result of this package.”

Scotland’s Welcome Back Campaign and Treefest

Launching the Treefest “What’s On” leaflets at the Scottish Parliament on 21 March 2002, Ross Finnie, the Minister for Environment and Rural Development, said:

“So with the Easter break and the prospect of warmer weather coming up, I’m delighted to repeat the message to the people of Scotland, and our visitors, that it’s time to get back out and enjoy our magnificent countryside.

This feast of activities to celebrate our sometimes under-appreciated heritage of trees, woods and forests is an excellent opportunity to explore new attractions and help Scotland’s rural economy and tourist industry to recover from the foot and mouth outbreak.

There is something for everyone on the programme, whether you’re interested in exploring the hundreds of miles of wonderful woodland walking tracks, cycling routes and bridle trails throughout Scotland, seeing how trees are sustainably grown and turned into products that we all use, or in the precious wild plants and animals that live in our woodlands.”

Appendix 3

Woodland Grant Scheme and Farm Woodland Premium Scheme Reviews

Terms of Reference

Rhona Brankin MSP, then Deputy Minister for Environment and Rural Development, announced a review of the Woodland Grant Scheme and the Farm Woodland Premium Scheme, when launching the Scottish Forestry Strategy in November 2000. The terms of reference of this review, she said, were:

“To put forward recommendations for changes to the WGS and FWPS in Scotland so as to improve their effectiveness in delivering priorities identified in the Scottish Forestry Strategy, as well as the developing Agriculture Strategy and the Rural Development Regulation, given current levels of funding.”

Steering Group

The review by the Scottish Executive was managed jointly by the Forestry Commission and the Environment and Rural Affairs Department. The steering group members were:

Representative

Michael Alexander*
Jean Balfour*
Robert Beaney
Andrew Campbell
Craig Campbell
Angus Crow
Douglas Greig (Co-Chair)
John Henderson
David Henderson-Howat (Co-Chair)
Richard Johnstone
Alasdair Laing
George McRobbie

James Ogilvie
Dr Phil Ratcliffe
Cllr W J (Ian) Ross
Gerry Selkirk (Secretary)
John Thomson
Douglas Wright (Technical Secretary)

Nominating body

Forestry and Timber Association
Forestry and Timber Association
Scottish Trades Union Congress
Scottish Crofters Union
National Farmers’ Union of Scotland
Royal Institution of Chartered Surveyors
Scottish Executive
Scottish Executive
Forestry Commission
Scottish Environment Link
Scottish Landowners’ Federation
Institute of Chartered Foresters and Forest Industries
Development Council
Forestry Commission
Deer Commission for Scotland
Confederation of Scottish Local Authorities
Scottish Executive
Scottish Natural Heritage
Forestry Commission

* for part of the time

Consultation

A consultation paper was issued in May 2001, and then consultation seminars were held in Moffat, Bridge of Allan and Inverness. Consultation closed on 30 September 2001, and 168 responses were received. An independent consultant was employed to analyse the responses, which were reflected in the report subsequently sent to Ministers (in May 2002).

The people who were consulted broadly accepted the following principles that were set out in the consultation paper:

- 🌲 grant schemes should be as simple as possible and readily understandable by applicants;
- 🌲 costs, uncertainties and timescale associated with preparing and submitting applications should be acceptable to potential applicants;
- 🌲 grant schemes should provide sufficient incentives for potential applicants but maximise value for money for the taxpayer, producing clear public benefits commensurate with the cost of grant, (including administration cost); and
- 🌲 there should be safeguards to ensure that there is long-term protection of public investment, particularly through the good management of forests.

The group, after discussing the feedback from the consultation exercise, noted the need for:

- 🌲 closer links with policy priorities, including perceived public benefits;
- 🌲 allowing scope to target grants in priority areas, or for priority purposes as identified in strategic and regional documents;
- 🌲 more effort to be focussed on the management of existing woodland, including restocking, as opposed to new planting, recognising funding constraints;
- 🌲 a more integrated approach, in relation to other grant schemes, such as the Rural Stewardship Scheme;
- 🌲 assisting with costs of deer management, particularly in light of increasing deer densities and the constraints on use of deer fencing;
- 🌲 considering the case for relaxing the Farm Woodland Premium Scheme area limits on unimproved land, and also the need to simplify land categories and take account of revised assessments of farming income forgone;
- 🌲 improving availability of information about proposals, for example, to local communities;
- 🌲 developing a grant framework that will stand the test of time, with a more comprehensive role for forest plans; and
- 🌲 supporting rural development and community involvement in forestry.

There were some areas where the views of those consulted differed: for example, people's views were split on the issue of using grants to promote certification, although it was recognised that certification had an important role to play in the delivery of public benefits.

Appendix 4

Woodland Grant Scheme Applicants' Charter

The Forestry Commission operates Charter Standards for Woodland Grant Schemes and Felling Licence applicants as well as for Forest Enterprise Design Plans. In all cases, we aim to acknowledge receipt of applications within three working days. For grant applications we aim to process applications from proposal stage to draft contract stage within 11 weeks. This includes any consultation with outside bodies. For Felling Licence Applications, we aim to issue a licence within ten weeks of receiving an application.

Overall, we processed 75 per cent of Woodland Grant Scheme applications within 11 weeks, and 24 per cent of all cases involved formal consultation. Charter Time for processing of felling licences is similar to last year, with 92 per cent processed in fewer than ten weeks. Overall processing performance for Forest Enterprise design plans declined slightly, with 75 per cent of plans being approved within ten weeks, compared with 78 per cent in 2001-02. In terms of payment of grant claims (our target is four weeks), our performance increased from 89 per cent to 95 per cent.

The processing times for WGS applications in 2001-02 were:

	2001-02 Percentage
WGS Applications	
Acknowledged within 3 days	100
Processed in under 11 weeks	75
Felling Licence Applications	
Acknowledged within 3 days	94
Processed in 10 weeks	92
FE Design Plans	
Processed in under 10 weeks	75
Grant Claims	
Paid in under 28 days	95

Appendix 5

Forestry Commission National and Conservancy Boundaries

Staff in National Office and Conservators, at 31 March 2002

National Office

David Henderson-Howat	Chief Conservator
James Ogilvie	Operations Manager
Alister Jones	Biodiversity Officer
Richard Broadhurst	Policy Officer
Ann Alexander	Administration and Finance Officer
Nicholas Shepherd	Landscape Architect
Derek Nelson	Market Development Officer
Peter Quelch	Native Woodland Advisor
Douglas Wright	Operations Support Manager
John Risby	Rural Development Adviser, effective from 18 February 2002

Conservators

Bob Dunsmore	Highland
Douglas Clark	Grampian
Syd House	Perth
Keith Wishart	Strathclyde
Alex Morris	Lothian and Borders
Christina Tracey	South West



Appendix 6

Forest Enterprise Boundaries

Staff in Territorial Offices and Forest District Managers, at 31 March 2002

Forest Enterprise North Scotland

Territorial Office

Hugh Insley	Director
Laurie Tyson	Land Agent, Scotland
Les Bryson	Harvesting and Marketing Officer
Moira Baptie	Forest Management and Environment Officer
Andy Leitch	Operations Support Officer
Alan Duncan	Territorial Management Accountant
Susan Innes	Administrative Manager
Maggie Gilvray	Territorial Landscape Architect

Forest District Managers

Chris Nixon	Dornoch
David Jardine	Inverness
Malcolm Wield	Fort Augustus
Philip Whitfield	Moray
Norman Davidson	Buchan
John Risby	Lochaber, transferred to National Office Scotland on 18 February 2002
Kevin Peace	Kincardine
Charlie Taylor	Tay
Keith Miller	Lorne
Simon Hodge	West Argyll

Forest Enterprise South Scotland

Territorial Office

Mike Lofthouse	Director
Laurie Tyson	Land Agent, Scotland
Mike Green	Harvesting and Marketing Officer
Peter Weston	Forest Management and Environment Officer, on temporary promotion, Head of Forest Planning Headquarters since 21 February 2002
Iain Yeoman	Territorial Management Accountant
Stephanie Atwell	Territorial Personnel Officer
Sandra Hanlon	Territorial Landscape Architect

Forest District Managers

Hugh Clayden	Cowal and Trossachs
Michael Wall	Scottish Lowlands
James Simpson	Scottish Borders
Bill Meadows	Ae
Rob Soutar	Galloway



Table 1

Area of planting for which grants were paid in the year ended 31 March 2002.

Scotland
Woodland Grant Scheme
Hectares

	New Planting	Restocking	Total
Conifer	2,934	2,057	4,991
Broadleaved	4,946	827	5,773
Total	7,880	2,884	10,764

Notes:

- 1 The Woodland Grant Scheme figures in the above table include new planting granted-aided in association with the Farm Woodland Premium Schemes administered by the Scottish Executive Environment and Rural Affairs Department.
- 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 areas of new planting include 3 hectares of short rotation coppice which was grant-aided.
- 4 The areas of restocking include 245 hectares of existing natural regeneration which has been secured in Scotland through the payment of grant-aid.
- 5 It is estimated that 55 hectares were planted in Scotland without grant-aid.
- 6 In addition 100 hectares (81 with conifers, 19 with broadleaves) were planted, and 4,874 hectares were restocked (4,494 with conifers, 380 with broadleaves) on land managed by Forest Enterprise.

Table 2

Area of planting for which grants were paid in the 20 year period 1 April 1982 to 31 March 2002.

Scotland
Hectares

Year ended 31 March	New Planting	Restocking	Total
1983	10,086	968	11,054
1984	14,129	1,019	15,148
1985	14,135	1,177	15,312
1986	17,292	1,559	18,851
1987	17,220	1,547	18,767
1988	21,197	1,660	22,857
1989	22,433	2,248	24,681
1990	11,488	1,984	13,472
1991	10,563	2,840	13,403
1992	9,825	3,210	13,035
1993	9,814	3,609	13,423
1994	9,180	4,314	13,494
1995	12,577	3,068	15,645
1996	10,195	3,169	13,364
1997	11,212	3,692	14,904
1998	11,304	2,737	14,041
1999	10,410	2,958	13,368
2000	10,363	3,757	14,120
2001	11,627	3,561	15,188
2002	7,880	2,884	10,764

Note:

This table includes planting grant-aided under the Woodland Grant Scheme in association with the Farm Woodland Premium Schemes administered by the Scottish Executive Environment and Rural Affairs Department.

Table 3

Area approved for Management Grant under the Woodland Grant Scheme for the last six years.

Scotland Hectares		
1996-1997	Conifer	5,103
	Broadleaved	4,946
	Total	10,049
1997-1998	Conifer	5,808
	Broadleaved	3,890
	Total	9,698
1998-1999	Conifer	6,594
	Broadleaved	3,552
	Total	10,146
1999-2000	Conifer	5,396
	Broadleaved	4,349
	Total	9,745
2000-2001	Conifer	2,590
	Broadleaved	6,325
	Total	8,915
2001-2002	Conifer	3,051
	Broadleaved	2,058
	Total	5,109

Table 4: Summary of Woodland Planting in Scotland

Table 4.1

Areas of WGS Planting and Native species (Grant Paid)

	1998-1999 (1)			1999-2000 (2)			2000-2001 (2)			2001-2002 (2)		
	Native	Non-native	Total	Native	Non-native	Total	Native	Non-native	Total	Native	Non-native	Total
New Planting – Conifers	1,607	3,703	5,310	2,718	2,446	5,164	1,350	2,493	3,843	762	2,172	2,934
New Planting – Broadleaves	3,074	2,016	5,100	3,560	1,639	5,199	6,654	1,130	7,784	4,267	679	4,946
Total New Planting	4,681	5,719	10,410	6,278	4,085	10,363	8,004	3,623	11,627	5,029	2,851	7,880
Restocking – Conifers	72	2,006	2,078	206	2,269	2,475	468	2,032	2,500	80	1,977	2,057
Restocking – Broadleaves	348	532	880	753	529	1,282	725	336	1,061	720	107	827
Total Restocking	420	2,538	2,958	959	2,798	3,757	1,193	2,368	3,561	800	2,084	2,884
Grand Total	5,101	8,257	13,368	7,237	6,883	14,120	9,197	5,991	15,188	5,829	4,935	10,764

Notes:

- 1 Compiled on the basis of first instalments of grant paid.
- 2 Compiled using second instalment of grant for regeneration.

Table 4.2

Areas of Native Pinewoods (Sub-set of Table 4.1)

	1998-1999 (1)	1999-2000 (2)	2000-2001 (2)	2001-2002 (2)
New Planting – Scots pine	1,426	2,684	1,258	762
New Planting – Broadleaves ³	1,264	1,886	2,587	1,420
New Planting NR ⁴ – Scots pine	181	34	92	–
New Planting NR ⁴ – Broadleaves ³	416	113	266	170
Total New Planting	3,287	4,717	4,203	2,352
Restocking – Scots pine	41	76	44	4
Restocking – Broadleaves ³	25	25	71	7
Restocking NR ⁴ – Scots pine	31	130	424	76
Restocking NR ⁴ – Broadleaves ³	52	158	120	64
Total Restocking	149	389	659	151
Grand Total	3,426	5,106	4,862	2,503

Notes:

- 1 Compiled on the basis of first instalments of grant paid.
- 2 Compiled using second instalment of grant for regeneration.
- 3 Representing the broadleaved component of native pinewoods.
- 4 NR = natural regeneration.

Table 4.3

Areas – Other Native Species (Sub-set of Table 4.1)

	1998-1999 (1)	1999-2000 (2)	2000-2001 (2)	2001-2002 (2)
New Planting – Conifer	–	–	–	–
New Planting – Broadleaves	1,107	971	3,222	2,039
New Planting NR ³ – Conifer	–	–	–	–
New Planting NR ³ – Broadleaves	287	590	579	638
Total New Planting	1,394	1,561	3,801	2,677
Restocking – Conifer	–	–	–	–
Restocking – Broadleaves	253	534	346	381
Restocking NR ³ – Conifer	–	–	–	–
Restocking NR ³ – Broadleaves	18	36	188	268
Total Restocking	270	570	534	649
Grand Total	1,665	2,131	4,355	3,326

Notes:

- 1 Compiled on the basis of first instalments of grant paid.
- 2 Compiled using second instalment of grant for regeneration.
- 3 NR = natural regeneration.

Table 4.4

Areas receiving Annual Management Grant

	1997-1998	1998-1999	1999-2000	2000-2001	2001-2002
Native Pinewoods	7,473	7,696	9,379	6,860	7,588

Table 4.5

Areas under Woodland Improvement Grant 3 Challenge Funding

	1997-1998	1998-1999	1999-2000	2000-2001	2001-2002
Argyll and Bute Oak Woods	218	229	70	443	226
Cairngorms	3,777	2,563	1,998	3,631	185
Total	3,995	2,792	2,068	4,074	411

Table 4.6

Areas under Speyside and Deeside Expansion Challenge

	1997-1998	1998-1999	1999-2000	2000-2001	2001-2002
Speyside and Deeside	44	87	270	15	-
Central Scotland	-	32	400	510	431
Grampian	492	988	438	379	439
Total	536	1,107	1,108	904	870

Table 4.7

Areas under Community Woodland Supplement

	1997-1998	1998-1999	1999-2000	2000-2001	2001-2002
	174	204	82	129	120

Table 4.8

Restocking on Forestry Commission Land

	1997-1998	1998-1999	1999-2000	2000-2001	2001-2002
	3,593	3,373	4,261	4,449	4,874

Table 5

Area of planting for which grants were paid in the year ended 31 March 2002 by Local Authority Area.

Woodland Grant Scheme
Hectares

	New Planting	Restocking
Highland Council	3,745	564
Orkney Islands Council	8	-
Shetland Council	3	-
Western Isle Council	120	-
Total Highland Conservancy	3,876	564
Aberdeenshire Council	884	155
City of Aberdeen Council	4	113
Moray Council	154	55
Total Grampian Conservancy	1,042	323
Argyll and Bute Council	271	169
City of Glasgow Council	19	-
North Ayrshire Council	36	16
Renfrewshire Council Dept of Planning and Transport	-	23
North Lanarkshire Council	232	-
South Lanarkshire Council	465	38
East Dunbartonshire Council	-	5
West Dunbartonshire Council	-	6
Total Strathclyde Conservancy	1,023	257
Angus Council	61	59
Clackmannanshire Council	1	-
Falkirk Council	21	1
Fife Council	84	32
Perth and Kinross Council	624	118
Stirling Council	77	66
Total Perth Conservancy	868	276
Dumfries and Galloway Council	75	1,073
East Ayrshire Council	119	47
South Ayrshire Council	501	20
Total Southwest Conservancy	695	1,140
City of Edinburgh Council	28	3
East Lothian Council	13	7
West Lothian Council	161	17
Midlothian Council	98	270
Scottish Borders Council	76	27
Total Lothian and Borders Conservancy	376	324
Total Scotland	7,880	2,884

Notes:

- 1 The Woodland Grant Scheme figures in the above table include new planting granted-aided in association with the Farm Woodland Premium Schemes administered by the Rural Affairs Department.
- 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 areas of restocking include 245 hectares of existing natural regeneration which has been secured in Scotland through the payment of grant-aid.

Financial Highlights

Summary Income and Expenditure Account for the year ended 31 March 2002

	2002 £000	2001 £000
Income		
Forestry Commission		
EU co-financing of woodland grants	7,261	8,893
Miscellaneous income	15	672
Forest Enterprise		
Sales of timber	34,313	36,505
Other forest income	4,195	5,580
Recreation income	2,979	2,508
	48,763	54,158

Expenditure

Forestry Commission		
Grants and partnership funding	17,374	19,595
Policy, regulation and administration	6,631	17,152
Forest Enterprise		
Planning, protecting and maintaining the forest asset	20,679	23,077
Social and environmental	9,852	8,196
Timber harvesting and roads	31,091	31,202
Managing the non-forest assets	2,656	3,627
	88,283	102,849
Net expenditure for the year	(39,520)	(48,691)

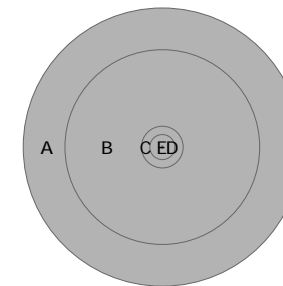
Summary Cash Flow Statement for the year ended 31 March 2002

	2002 £000	2001 £000
Net expenditure for the year	(39,520)	(48,691)
Depreciation and other non-cash items	2,499	14,216
Movement in working capital	1,360	(499)
Movement in provision and liabilities	409	71
Net cash flow from operating activities	(35,252)	(34,903)
New planting	(788)	(623)
Purchase of fixed assets	(3,247)	(2,958)
Net proceeds from disposal of fixed assets	1,782	2,494
Funding from Scottish Executive	(37,505)	(35,990)

Summary Balance Sheet as at 31 March 2002

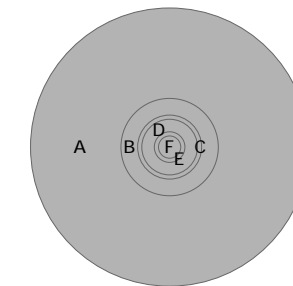
	2002 £000	2001 £000
Fixed assets	536,201	562,474
Current assets	14,649	14,417
Creditors: amounts falling due within one year	(5,924)	(3,036)
Net current assets	8,725	11,381
Provision for liabilities and charges	(482)	(73)
Total assets less liabilities	544,444	573,782
Capital and reserves	544,444	573,782

Income 2001-02



A - Sales of Timber	70%
B - EU co-financing of woodland grants	15%
C - Recreation income	9%
D - Other forest income	6%
E - Miscellaneous income	0%

Expenditure 2001-02



A - Timber harvesting and roads	35%
B - Planning, protecting and maintaining the forest asset	23%
C - Grants and partnership funding	20%
D - Social and environmental	11%
E - Policy, regulation and administration	8%
F - Managing the non-forest assets	3%

Contents

55	Foreword
61	Statement of Forestry Commissioners' and Accountable Officer's Responsibilities
62	Statement on Internal Control
64	Auditor's Report to the Scottish Parliament and the Auditor General for Scotland The Accounting Schedules:
66	Schedule 1 – Summary of Resource Outturn
68	Schedule 2 – Operating Cost Statement
69	Schedule 3 – Balance Sheet
70	Schedule 4 – Cash Flow Statement
71	Schedule 5 – Resources by Departmental Aim and Objectives
72	Notes to the Resource Accounts
87	Accounts Direction given by the Scottish Executive

Foreword

Scope

1 Basis of Accounts

These accounts are prepared in accordance with the Accounts Direction issued by Scottish Ministers under Section 45(1) of the Forestry Act 1967.

2 Status

The Forestry Commission together with its executive agencies, Forest Enterprise (FE) and Forest Research (FR), is the government department responsible for advising Ministers on, and for implementing, forestry policy in each of the three countries comprising Great Britain. The legislative framework for forestry is principally the Forestry Acts 1967, 1979 and 1981, the Plant Health Act 1967, the Countryside Act (Scotland) 1967 and the Countryside Act 1968.

The Government of Wales Act 1998, the Scotland Act 1998, and the subsequent statutory instruments, specified the Forestry Commission as a cross-border public authority, transferred the Ministers' responsibilities for forestry in Scotland and Wales to the Scottish Ministers and the National Assembly respectively, transferred ownership of land and property, and made other various changes to devolve forestry to Scotland and Wales. In May 2001 Forestry Ministers announced a review of the devolution arrangements for delivering sustainable forestry policies in England, Scotland and Wales and the UK's international forestry commitments. In August 2002, Forestry Ministers agreed the recommendations of the interdepartmental group conducting the review. In particular they accepted that current arrangements needed to be updated, but agreed that this should be implemented by administrative action. The changes include much greater integration of policy development and delivery between the Forestry Commission's national offices and the rural affairs departments in Scotland, England and Wales. The Forest Enterprise agency will be devolved into three bodies, charged with managing separately the public forests in England, Scotland and Wales.

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

Foreword (continued)

3 Departmental Accounting Boundary

These accounts reflect the assets, liabilities and results of the core-department (the Forestry Commission) in Scotland. FE, an executive agency of the Forestry Commission since 1 April 1996, is a public corporation for national accounting. Accordingly, it is outside the departmental boundary for resource accounting and produces its own accounts for each country with the net funding and net worth of FE in Scotland reflected in these accounts.

Equivalent resource accounts are produced for the Forestry Commission's activities in England and Great Britain (areas such as plant health, international policy and research which are either reserved or, by agreement, carried out on a Great Britain-wide basis), and Wales. FR, an executive agency of the Forestry Commission since 1 April 1997, is within the departmental boundary funded by the UK Parliament and is consolidated in the Forestry Commission in England/Great Britain accounts.

4 Responsibilities

The Forestry Commission is responsible for:

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

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

5 Aim and Objectives

The Forestry Commission is the forestry department of 3 administrations – the UK Government, the Scottish Executive and the National Assembly for Wales. Its aim is the sustainable management of our existing woods and forests, and a steady expansion of tree cover to increase the many, diverse benefits that forests provide to meet the needs of present and future generations. Through its powers and duties set out in the various Acts, the objective of the Forestry Commission for its Great Britain activities, is:

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

In Scotland, it implements the strategic directions of the Scottish Forestry Strategy, *Forests for Scotland*, which are:

- to maximise the value to the Scottish economy of the wood resource becoming available over the next 20 years;
- to create a diverse forest resource of high quality that will contribute to the economic needs of Scotland throughout the 21st century and beyond;
- to make sure that Scotland's trees, woods and forests make a positive contribution to the environment;
- to create opportunities for more people to enjoy trees, woods and forests in Scotland;
- to help communities benefit from woods and forests.

6 Departmental Report

The Forestry Commission (Scotland)'s annual spending plan is in Chapter 13 of *The Scottish Budget 2003-04* published in April 2002. The Forestry Commission (Scotland)'s corporate plan was published in June 2002.

7 Post-Balance Sheet Events

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

Foreword (continued)

Operating and Financial Review

8 Results for the Year

Schedule 1 shows the Forestry Commission in Scotland produced a net resource outturn of £73,297,000 (£69,007,000 in 2000-01). Staff costs decreased by £335,000 but other administrative costs increased by £1,720,000 which included reduced income as there was no major recoveries of failed woodland grant planting. Grants paid to private woodland owners, excluding EU-funded grants, reduced by £612,000 and funding to Forest Enterprise in Scotland increased by £3,334,000 due largely to the fall in timber prices.

After adjusting the net operating cost for items not involving the movement of cash, for capital expenditure and financial investment, and payments to Forest Enterprise in Scotland, the net financing requirement received from the Scottish Consolidated Fund was £37,505,000, compared to £32,647,000 in 2000-01.

9 Movement in Fixed Assets

Additions to fixed assets in the financial year were £23,000.

Management

10 Ministers

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

Ross Finnie MSP	Minister for Environment and Rural Development
Rhona Brankin MSP	Deputy Minister for the Environment and Rural Development (until 27 November 2001)
Allan Wilson MSP	Deputy Minister for the Environment and Rural Development (from 27 November 2001)

11 Permanent Head of the Department and Forestry Commissioners

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

Sir Peter Hutchison Bt CBE FRSE	Non executive Chairman (retired 30 November 2001)
Lord David Clark	Non executive Chairman (commenced 10 December 2001)
David Bills CBE	Director General and Deputy Chairman
Dr Bob McIntosh	Chief Executive, Forest Enterprise
Duncan Macniven TD	Head of Corporate Services

Non-executive Commissioners during the year were:

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

12 Appointment of the Permanent Head of the Department and Forestry Commissioners

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

Foreword (continued)

13 Remuneration

The salaries of Scottish Executive ministers (including junior ministers) are established by the Scotland Act 1998 (Transitory and Transitional Provisions) (Salaries and Allowances) Order 1999 (S.I. 1999/1097) which came into force on 6 May 1999.

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

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

Public interest and other

14 Employment Policies

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

15 Supplier Payment Policy

The Forestry Commission complies with The 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 2001-02 indicates that 95.1 per cent of invoices were paid within the due date. Arrangements for handling complaints on payment performance are notified to suppliers on contracts.

16 Auditors

The accounts of the Forestry Commission in Scotland are audited by auditors appointed by the Auditor General for Scotland.

D J Bills CBE

Accountable Officer
14 November 2002

Statement of Forestry Commissioners' and Accountable Officer's Responsibilities

- 1 Under Section 45(1) of the Forestry Act 1967, the Forestry Commission is required to prepare resource accounts for each financial year, in conformity with a direction by Scottish Ministers, 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 The Principal Accountable Officer has appointed the Permanent Head of Department as Departmental Accountable Officer of the Forestry Commission with overall responsibility for preparing the department's accounts and for transmitting them to the Auditor General for Scotland.
- 4 In preparing the accounts the Departmental Accountable Officer is required to comply with the *Resource Accounting Manual* prepared by the Treasury, and in particular to:
 - observe the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
 - make judgements and estimates on a reasonable basis;
 - state whether applicable accounting standards, as set out in the *Resource Accounting Manual*, have been followed, and disclose and explain any material departures in the accounts;
 - prepare the accounts on the going concern basis.
- 5 In addition the Principal Accountable Officer has designated the Chief Executive of Forest Enterprise as the Accountable Officer for the Agency. This appointment does not detract from the Head of Department's overall responsibility as Accountable Officer for the department's accounts.
- 6 The responsibilities of the Director General, as Departmental Accountable Officer, including responsibility for the propriety and regularity of the public finances for which an Accountable Officer is answerable, for keeping proper records and for safeguarding the department's assets, are set out in the Memorandum to Accountable Officers from the Principal Accountable Officer.

Statement on Internal Control

As Accountable Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of departmental policies, aims and objectives, set by Ministers, whilst safeguarding the public funds and departmental assets for which I am personally responsible, in accordance with the responsibilities assigned to me. Control of certain activities is delegated to the Forestry Commission's agencies, Forest Enterprise and Forest Research, and in respect of those I place reliance on the Statements on Internal Control made by the Chief Executives.

The system of internal control is designed to manage rather than eliminate the risk of failure to achieve policies, aims and objectives: it can therefore only provide reasonable and not absolute assurance of effectiveness.

The system of internal control is based on an ongoing process designed to identify the principal risks to the achievement of the Forestry Commission's policies, aims and objectives, to evaluate the nature and extent of those risks and to manage them efficiently, effectively and economically. By March 2002 I had put in place the procedures necessary to implement guidance from Scottish Ministers and these will operate fully in the coming year.

We have agreed and promulgated a risk management policy. Working with responsible managers, we have developed a risk register for the principal risks to the achievement of the Commission's policies, aims and objectives. This identifies the risks, the adequacy of the controls and any corrective action required. This has been endorsed by the Forestry Commission Management Board. We have introduced the topic into a series of financial awareness seminars to be attended during the coming year by staff of all grades with financial responsibilities.

The Board of Commissioners, the Management Board and the Policy Board each meet monthly to consider the plans and strategic direction of the Commission. Boards receive regular reports from managers on key projects. The risk management policy ensures that the Management Board includes risk management within its remit and formally tasks it with its review. There will be a full risk and control assessment before reporting on the year ending 31 March 2003.

As Accountable Officer I receive periodic reports from the chairman of the Departmental Audit Committee concerning internal control. The Forestry Commission also has an overarching Audit Committee which is chaired by the Chairman of the Board of Commissioners. Its remit includes advice to me on the effectiveness of risk management and control throughout the Commission and its Agencies. The work of the internal and external auditors is currently reported annually to the full Board of Commissioners; in future this will be expanded to cover the full business of the overarching Forestry Commission Audit Committee.

In addition to the actions mentioned above, in the coming year we will:

- implement the financial awareness seminars which introduce the concepts of risk management;
- maintain the departmental risk register and review the planned actions;
- arrange for reports from the Chief Executives of the agencies on internal control activities.

The Forestry Commission has an Internal Audit Unit, which operates to standards defined in the Government Internal Audit Manual. It submits regular reports which include the Head of Internal Audit's independent opinion on the adequacy and effectiveness of the Commission's system of internal control together with recommendations for improvement.

My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within the Commission who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letters and other reports.

D J Bills CBE

Accountable Officer

14 November 2002

Auditor's Report to the Scottish Parliament and the Auditor General for Scotland

I have audited the financial statements on pages 66 to 86 under the Forestry Act 1967. These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages 72 to 75.

Respective Responsibilities of the Commission, the Accountable Officer and Auditor

As described on page 61 the Commission and Accountable Officer are responsible for the preparation of the financial statements and for ensuring the regularity of financial transactions. The Commission and Accountable Officer are also responsible for the preparation of the other contents of the Annual Report. My responsibilities, as independent auditor, are established by the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice approved by the Auditor General for Scotland, and guided by the auditing profession's ethical guidance.

I report my opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Forestry Act 1967 and directions made thereunder by the Scottish Ministers and whether, in all material respects:

- the expenditure and receipts shown in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers, the Budget (Scotland) Act covering the financial year and Sections 4 to 7 of the Public Finance and Accountability (Scotland) Act 2000;
- the sums paid out of the Scottish Consolidated Fund for the purpose of meeting the expenditure shown in the financial statements were applied in accordance with Section 65 of the Scotland Act 1998.

I also report if, in my opinion, the Foreword is not consistent with the audited financial statements, if the Commission has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

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

I review whether the statement on pages 62 and 63 complies with Scottish Executive guidance on statements on the system of internal control. I report if the statement does not comply with the guidance, or if the statement is misleading or inconsistent with other information I am aware of from my audit.

Basis of Audit Opinions

I conducted my audit in accordance with the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice, which requires compliance with relevant United Kingdom Auditing Standards issued by the Auditing Practices Board.

An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of expenditure and receipts shown in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Commission and Accountable Officer in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Commission's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error, and that, in all material respects, the expenditure and receipts shown in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinions

Financial Statements

In my opinion the financial statements give a true and fair view of the state of affairs of the Forestry Commission in Scotland at 31 March 2002 and of the net resource outturn, resources applied to aims, recognised gains and losses and cash flows for the year then ended and have been properly prepared in accordance with the Forestry Act 1967 and directions made thereunder by the Scottish Ministers.

Regularity

In my opinion, in all material respects:

- the expenditure and receipts shown in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers, the Budget (Scotland) Act covering the financial year and Sections 4 to 7 of the Public Finance and Accountability (Scotland) Act 2000;
- the sums paid out of the Scottish Consolidated Fund for the purpose of meeting the expenditure shown in the financial statements were applied in accordance with Section 65 of the Scotland Act 1998.

Gillian Woolman ACA

Chief Auditor
15 November 2002

Audit Scotland
Osborne House
Osborne Terrace
Edinburgh EH12 5HG

Schedule 1

**Summary of Resource Outturn
for the year ended 31 March 2002**

	2001-02 Estimate			2001-02 Outturn			2001-02	2000-01
	Gross Expend- iture	A in A	Net Total	Gross Expend- iture	A in A	Net Total	Net total compared with Estimate saving/ (excess)	Prior year outturn - Net
	£000	£000	£000	£000	£000	£000	£000	£000
Total resources	73,350	-	73,350	73,297	-	73,297	53	80,419
FE diminution in value included in total resources	-	-	-	-	-	-	-	(11,412)
Adjusted total resources	73,350	-	73,350	73,297	-	73,297	53	69,007
Net cash requirement	38,800	-	38,800			37,505	1,295	32,647
Reconciliation of resources to cash requirement								
	Note	£000	£000	£000	£000	£000	£000	£000
Net total resources				73,350		73,297	53	69,007
Capital:								
Purchase of fixed assets	6			-		23	(23)	12
Investments				-		-	-	-
Non-operating cost A in A:								
				-		-	-	-
Accruals adjustments:								
Non-cash items	3			(182)		(159)	(23)	(213)
Changes in working capital other than cash	8			-		420	(420)	958
Changes in creditors falling due after more than one year				-		-	-	-
Use of provision				-		-	-	-
Non-cash inter-country transfers	14			-		(160)	160	-
Other adjustments:								
Adjustment of FE net deficit to financing	4			(34,368)		(35,916)	1,548	(37,117)
Net cash requirement				38,800		37,505	1,295	32,647

Actual amount net resources outturn £73,296,819.86. Actual amount of savings in resources over Estimate £53,180.14.

Net cash requirement: Outturn net requirement £37,505,325.14 which is £1,294,674.86 less than Estimate.

Explanation of the Variance between Estimate and Outturn (Net Total Resources):

No significant variance.

Explanation of the Variance between Estimated Net Cash Requirement and Outturn**Net Cash Requirement:**

The saving in the net cash requirement, despite the fall in timber prices, was due to reduced net capital expenditure by FE.

Explanation of the variance between the Prior Year Outturn and Prior Year Cash Flow**Statement (Schedule 4):**

No explanation required.

Analysis of Income payable to the Consolidated Fund

	2001-02 Income £000	2001-02 Receipts £000	2000-01 Income £000	2000-01 Receipts £000
Income for fees not classified as A in A	-	-	-	-
Income from the sale of assets not classified as A in A	-	-	-	-
Total	-	-	-	-

The Notes on pages 72 to 86 form part of these accounts.

Schedule 2

Operating Cost Statement
for the year ended 31 March 2002

	Note	£000	2001-02 £000	£000	2000-01 £000
Administration costs:					
Staff costs	2	2,455		2,790	
Other administration costs	3	3,769		2,700	
Gross administration costs			6,224		5,490
Operating income	3	(10)		(661)	
Administration income			(10)		(661)
Net administration costs			6,214		4,829
Programme costs:					
Request for Resources 1					
Expenditure	4	74,349		84,494	
Less income	4	(7,266)		(8,904)	
Net programme costs			67,083		75,590
Net operating cost	5		73,297		80,419
Net resource outturn	5		73,297		80,419

Statement of Recognised Gains and Losses
for the year ended 31 March 2002

		£000	2001-02 £000	£000	RESTATED 2000-01 £000
FC revaluation surplus for the year	15		2		-
In year movement in FE revaluation reserve	15		(25,216)		(30,260)
Total recognised gains and losses for the year			(25,214)		(30,260)

There have been no discontinued operations during the year.

The Notes on pages 72 to 86 form part of these accounts.

Schedule 3

Balance Sheet
as at 31 March 2002

	Note	£000	2001-02 £000	£000	2000-01 £000
Fixed assets:					
Tangible fixed assets	6	91		176	
Investments	7	544,097		572,475	
Total			544,188		572,651
Current assets:					
Stocks	9	-		17	
Debtors	10	2,596		1,548	
Cash at bank and in hand	11	-		-	
Total		2,596		1,565	
Creditors (amounts falling due within 12 months)					
	12	(2,340)		(434)	
Net current assets			256		1,131
Total assets less current liabilities			544,444		573,782
Provisions for liabilities and charges					
	13		-		-
			544,444		573,782
Taxpayers' equity					
General fund	14		412,990		417,114
Revaluation reserve	15		131,454		156,668
			544,444		573,782

The Notes on pages 72 to 86 form part of these accounts.

D J Bills CBE

Accountable Officer
14 November 2002

Schedule 4

Cash Flow Statement

for the year ended 31 March 2002

	Notes	2001-02 £000	2000-01 £000
Net cash outflow from operating activities		(16,880)	(16,568)
Payments to Forest Enterprise		(20,602)	(16,067)
Capital expenditure and financial investment	6	(23)	(12)
Financing		37,505	32,647
Increase in cash in the period	11	-	-
Reconciliation of operating cost to operating cash flows			
Net operating cost		(73,297)	(80,419)
Adjustment for non-cash transactions	3/4	56,677	64,809
Non-cash inter-country transfers	14	160	-
Adjustments for movements in working capital other than cash	8	(420)	(958)
Adjustment for transfer from provision		-	-
Net cash flow from operating activities		(16,880)	(16,568)
Analysis of capital expenditure and financial investment			
Purchase of fixed assets	6	(23)	(12)
Proceeds of disposal of fixed assets		-	-
Loans to other bodies		-	-
Net cash outflow from investing activities		(23)	(12)
Analysis of financing and reconciliation to the net cash requirement			
Net financing requirement		37,505	32,647
Decrease in cash	11	-	-
Net cash requirement		37,505	32,647

Amount of grant actually issued to support the net financing requirement = £37,505,322.80

The Notes on pages 72 to 86 form part of these accounts.

Schedule 5

Resources by Departmental Aim and Objective

for the year ended 31 March 2002

	Notes	2001-02 Gross expenditure £000	2001-02 Income £000	Net expenditure £000	RESTATED 2000-01 Gross expenditure £000	RESTATED 2000-01 Income £000	Net expenditure £000
Aim:							
Objectives							
Maximise the value to the Scottish economy of the wood resource becoming available over the next 20 years		24,058	(3,263)	20,795	26,399	(4,289)	22,110
Create a diverse forest resource of high quality that will contribute to the economic needs of Scotland throughout the 21st century and beyond		34,404	(689)	33,715	40,431 ⁽¹⁾	(905)	39,526
Make sure that Scotland's trees, woods and forests in Scotland make a positive contribution to the environment		7,516	(1,324)	6,192	7,779	(1,741)	6,038
Create opportunities for more people to enjoy trees, woods and forests in Scotland		5,545	(14)	5,531	5,654	(19)	5,635
Help communities benefit from woods and forests		9,050	(1,986)	7,064	9,721	(2,611)	7,110
Net operating costs		80,573	(7,276)	73,297	89,984	(9,565)	80,419

See Note 16

The objectives used in Schedule 5 for 2001-02 were changed to reflect those published in the three country Forestry Strategies as well as the overall objective of the Forestry Commission for its Great Britain activities.

The 2000-01 figures are restated on the same basis.

(1) Includes FE diminution in value of £11,412 taken to operating cost statement.

The Notes on pages 72 to 86 form part of these accounts.

Notes to the Resource Accounts

1 Statement of Accounting Policies

In accordance with Section 45(1) of the Forestry Act 1967, the accounts are drawn up in a format agreed and approved by the Scottish Executive. They are prepared in accordance with the 2001-02 Resource Accounting Manual (RAM) issued by HM Treasury. The accounting policies contained in the RAM follow UK generally accepted accounting practice for companies (UK GAAP) to the extent that it is meaningful and appropriate to the public sector. The department's accounting policies have been applied consistently in dealing with items considered material in relation to the accounts. The particular accounting policies adopted by the Forestry Commission are described below.

A Accounting Convention

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

B Basis of Consolidation

These accounts reflect the assets, liabilities and results of the core-department (the Forestry Commission) in Scotland. Forest Enterprise (FE), an executive agency, is a public corporation for national accounting and as such is outside the boundary for resource accounting purposes. The FE in Scotland accounts are published separately in the Forestry Commission Annual Report and Accounts for Scotland with the net funding and net worth of FE in Scotland reflected in these accounts.

C Tangible Fixed Assets

Legal ownership of all land and buildings is vested in the Scottish Executive with legal ownership of the timber, including uncut trees, vested in the Forestry Commissioners. Where FE is the principal beneficial user of the assets of the Forestry Commission estate they are treated as a fixed asset of the agency. Freehold land and buildings have been restated at open market value using a professional revaluation every three years and appropriate indices in intervening years. Professionally qualified staff employed by the Forestry Commission carry out the revaluation.

Legal ownership of other tangible fixed assets, primarily office equipment, is vested in the Forestry Commissioners. Office equipment values are updated annually using a general price index.

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

D Depreciation

Freehold land is not depreciated.

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

Lives are in the following ranges:

Buildings	– 20-60 years
Research and office equipment	– 4-20 years

Impairments of fixed assets are charged to the operating statement in the period in which they have occurred.

E Intangible Assets

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

F Investments

Forest Enterprise in Scotland is treated as an investment and is shown in the balance sheet at the value of the net assets of the agency as at 31 March 2002.

G Stocks

Stocks of publications 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.

H Provision for Bad and Doubtful Debts

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

I Research and Development

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

J Administrative and Programme Expenditure

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

Notes to the Resource Accounts (continued)

K European Union (EU) Funding

The Forestry Commission acts as an agent of the EU for third party grants paid from Objective 1 and 5b and Woodland Grant Scheme payments made under the national European Agricultural Guarantee and Guidance Fund. The Forestry Commission undertakes to pay planting grants in three instalments whilst grants for the management of existing woodlands are payable annually in arrears during the five-year currency of an approved plan. Grants become payable (and are recognised as a liability in the balance sheet), and contributions from the EU are claimed, once any necessary physical inspection has been undertaken to verify that the scheme conditions have been met. If grants are subsequently recovered because of failure to fulfil the conditions of the Woodland Grant Scheme, the amount of co-financing may be repayable to the EU.

EU costs and grants paid are included in programme expenditure and off-setting EU funding/co-financing is included in programme income.

L Capital Charges

Charges, reflecting the cost of capital utilised by the core department in Scotland and Forest Enterprise in Scotland, have been included under administration or programme costs, as appropriate, in the operating cost statement. The charge is calculated at the government's standard rate of 6 per cent in real terms on total assets less liabilities, except for cash balances held by the Office of the Paymaster General.

M Value Added Tax (VAT)

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

N Insurance

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

O Pensions

Until 30 November 2001, the Forestry Commission ran a pension scheme for its staff by analogy with the Principal Civil Service Pension Scheme (PCSPS). The final separate Pension Scheme accounts are published in the Forestry Commission in England/Great Britain Annual Report as it is a reserved Great Britain matter. In accordance with Treasury Accounts directions, the liabilities of the pension scheme are shown in the pension scheme statement, whilst employers' and employees' contributions are included in the accounts of the Forestry Commission and its agencies under staff costs.

From 1 December 2001 the Forestry Commission Pension Scheme was subsumed into the PCSPS. Present and past employees are covered by the provisions of the PCSPS, which is non-contributory and unfunded apart from contributions for widows'/widowers' benefits. Although the Scheme is a defined benefit scheme, liability for payment of future benefits is a charge to the PCSPS. Government bodies covered by the PCSPS meet the cost of pension cover provided for the staff they employ by payment of charges calculated on an accruing basis. There is a separate scheme statement for the PCSPS as a whole.

Principal Civil Service Pension Scheme 2000 (PCSPS 2000) is a new scheme which is scheduled to be introduced in October 2002. On its introduction the current PCSPS will be closed to new members who will be required to join the new scheme. An options exercise commenced in January 2002 to provide current PCSPS staff with a statement that compares forecasted benefits under each scheme and they may elect to transfer their current benefits into the new scheme in October 2002.

P Compensation Scheme

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

Notes to the Resource Accounts (continued)

2 Staff Numbers and Costs

A Employees and Costs

The average number of whole time equivalent persons employed by the Forestry Commission and its agencies during the year was 3,007 (3,116 in 2000-01). The Forestry Commission in Scotland employed an average of 81 (78 in 2000-01) with a further 274 staff (264 in 2000-01) employed on a Great Britain basis to provide support to Forestry Commission activities in all three countries and to its agencies. The aggregate payroll costs as follows:

	2001-02 £000	2000-01 £000
Forestry Commission in Scotland		
Wages and salaries	1,995	2,251
Social security costs	148	163
Employer's superannuation costs	312	376
Total	2,455	2,790

The 2000-01 staff costs included a small proportion (5%) of the Great Britain staff costs.

Until 30 November 2001 staff were covered by the Forestry Commission Pension Scheme (FCPS) which was a defined benefit pension scheme. The employers' contribution rates to the FCPS were in the range 15-22%, according to grade, as determined by the Government Actuary. Actual payments were met by the Forestry Commission and reflected in the final FCPS accounts which can be found in the Forestry Commission in England/Great Britain Annual Report. From 1 December 2001 the scheme was subsumed into the Principal Civil Service Pension Scheme (PCSPS). The 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 was carried out at 31 March 1999. Details can be found in the resource accounts of the Cabinet Office; Civil Superannuation (www.civilservice-pensions.gov.uk). For 2001-02, employers' contributions of £95,000 were payable to the PCSPS (Nil in 2000-01) at one of the four rates in the range 12-18.5 per cent of pensionable pay, based on salary bands. Rates will remain the same for the next two years, subject to revalorisation of the salary bands. Employer contributions are to be reviewed every four years following a full scheme valuation by the Government Actuary. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

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

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

The advances of salary for house purchase scheme had 8 loans with an outstanding balance of £2,500 or more to individual members of staff at 31 March 2002. The total value of these loans was £42,246.

B Board of Commissioners

The Forestry Commissioners who served during the year are given in Section 11 of the Foreword.

(a) Salaries

The remuneration of the Commissioners is included in the Forestry Commission in England/Great Britain Accounts, excluding the Forest Enterprise Chief Executive whose remuneration is in the FE Accounts. The total remuneration of the Commissioners, excluding pension contributions but including the FE Chief Executive, was:

	2001-02 £000	2000-01 £000
Chairman – Sir Peter Hutchison (to 30 November 2001)	31	43
Chairman – Lord David Clark (from 10 December 2001)	9	–
Highest paid Commissioner	116	112
Other Commissioners	210	207
Total emoluments of Commissioners	366	362
Travel and subsistence of Commissioners	47	47

The Director General received total remuneration of £115,525 in 2001-02 (£111,737 in 2000-01) including a bonus of £10,855 (£9,730 in 2000-01). The Director General is on a fixed-term contract which expires in December 2003, with the option to renew for another four years. He is an ordinary member of the PCSPS.

The emoluments of the other Commissioners fell within the following ranges:

	2001-02 No	2000-01 No
£0-4,999	–	2
£5,000-9,999	8	7
£30,000-34,999	1	–
£40,000-44,999	–	1
£70,000-74,999	–	1
£75,000-79,999	2	–
£80,000-84,999	–	1

Salaries include gross salaries, performance bonuses and benefits in kind.

(b) Pension Entitlements

The Chairman and non-executive Commissioners do not receive pension benefits from the Forestry Commission. Pay and pension information for the remaining Commissioners is:

	David Bills	Dr Bob McIntosh	Duncan Macniven
Age	54	50	51
Pay as at 31 March 2002	108,550	77,802	76,105
Pension increase net of inflation	1,463	1,775	1,824
Accrued pension at 31 March 2002	7,674	25,690	27,174

Notes to the Resource Accounts (continued)

Pension benefits for the above Commissioners are consistent with other Forestry Commission employees and are provided through the Principal Civil Service Pension Scheme. The scheme provides benefits on a 'final salary' basis at a normal retirement age of 60. Benefits accrue at the rate of 1/80th of pensionable salary for each year of service. In addition a lump sum equivalent to 3-years' pension is payable on retirement. Members pay contributions of 1.5 per cent of pensionable earnings for the provision of widows' and children's benefits. Pensions increase in payment in line with the Retail Price Index. On death, pensions are payable to the surviving spouse at a rate of half the member's pension. On death in service, the Scheme pays a lump sum benefit of twice pensionable pay and also provides a service enhancement on computing the spouse's pension. The enhancement depends on length of service and cannot exceed 10 years. Medical retirement is possible in the event of serious ill-health. In this case, pensions are brought into payment immediately without actuarial reduction and with service enhanced as for widow(er) pensions.

3 Other Administrative Costs

	2001-02 £000	2000-01 £000
Travel and subsistence	198	223
Other expenditure	3,412	2,264
Other income	(10)	(661)
Sub-total	3,600	1,826
Non-cash costs		
Cost of capital	50	53
Depreciation	55	101
Write back of depreciation on transfers/disposals	-	(7)
Downward movement in the value of FC assets	-	35
Loss on sale of assets	24	-
Notional audit fees	30	26
Non-cash inter-country transfers	-	5
Sub-total	159	213
Total	3,759	2,039

4 Programme Expenditure and Income

	2001-02 £000	2000-01 £000
Grants paid to private woodland owners	17,374	19,595
Publications and other expenditure	457	303
Sub-total	17,831	19,898
Forest Enterprise funding	56,518	53,184
Sub-total	74,349	73,082
FE diminution in value to operating cost statement	-	11,412
Total programme expenditure	74,349	84,494
Planting grant co-financing from EU	7,261	8,870
Sundry income	5	34
Total programme income	7,266	8,904

Forest Enterprise in Scotland incurred a deficit on its income and expenditure account of £56,518,000 (£53,184,000 in 2000-01). It received cash funding of £20,602,000 (£16,067,000 in 2000-01) from the Forestry Commission and the difference is shown under other adjustments in Schedule 1. The difference comprises:

	2001-02 £000	2000-01 £000
Capital		
Net capital	(1,691)	(555)
Accruals adjustments		
Cost of capital	33,497	34,691
Non-cash items	1,920	2,451
Changes in working capital, including cash	1,781	459
Changes in working capital falling due after more than one year	-	-
Use of provision	409	71
Adjustment of FE deficit to financing	35,916	37,117

Notes to the Resource Accounts (continued)

5 Reconciliation of Net Operating Cost to Control Total and Net Resource Outturn

	2001-02 £000	2000-01 £000
Net operating cost for the year	73,297	80,419
Remove non-supply expenditure	-	-
Add non-supply income including CFERs	-	-
Add net deficit on revaluations	-	-
Net resource outturn	73,297	80,419

6 Tangible Fixed Assets

	Land and Buildings £000	Machinery, Plant and Equipment £000	Total £000
Valuation:			
At 1 April 2001	54	626	680
Additions	-	23	23
Disposals/transfers	(54)	(112)	(166)
Revaluation to current prices	-	4	4
At 31 March 2002	-	541	541
Depreciation:			
At 1 April 2001	1	503	504
Provided during year	-	55	55
Disposals/transfers	(1)	(110)	(111)
Revaluation to current prices	-	2	2
At 31 March 2002	-	450	450
Net Book Value at:			
31 March 2002	-	91	91
1 April 2001	53	123	176

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

The machinery, plant and equipment assets were revalued as at 31 March 2002 using National Statistics 'Price Index Numbers For Current Cost Accounting'.

7 Investments

Forest Enterprise in Scotland is a public corporation for national accounting and as such is outside the departmental boundary for resource accounting. Its net book value of £544,097,000 (£572,475,000 for 2000-01) is shown as an investment in the balance sheet of the Forestry Commission in Scotland.

8 Movements in Working Capital other than Cash

	2001-02 £000	2000-01 £000
Decrease/(increase) in stocks	17	(11)
Decrease/(increase) in debtors	(1,048)	(1,360)
(Decrease)/increase in creditors: amounts falling due within one year	611	413
Movements in working capital other than cash	(420)	(958)

9 Stocks and Work in Progress

	2001-02 £000	2000-01 £000
Stocks (publications)	-	17
Total	-	17

10 Debtors

	2001-02 £000	2000-01 £000
Trade debtors	2,535	434
Other debtors	61	1,114
Total	2,596	1,548

11 Cash at Bank and in Hand

	2001-02 £000	2000-01 £000
Balance with Office of Paymaster General	-	-
Cash at commercial banks and cash in hand	-	-
Total	-	-

The Office of the Paymaster General provides a current account banking service. All cash balances except petty cash are included in the Forestry Commission England/Great Britain Accounts.

Notes to the Resource Accounts (continued)

12 Creditors

Amounts falling due within one year:

	2001-02 £000	2000-01 £000
Payments received on account	-	-
Trade creditors	759	434
Other creditors including taxation and social security costs	286	-
Amounts issued from the Scottish Executive for supply but not spent at year end	1,295	-
Total	2,340	434

Following approval of a management plan for planting proposals, the Forestry Commission undertakes to pay planting grants in three instalments. At 31 March 2002, the Forestry Commission was committed under signed plans to the payment of future instalments of planting and replanting grants amounting to £24.9 million (£42.1 million in 2000-01). Grants for the management of existing woodlands are payable annually in arrears during the five-year currency of an approved plan, so long as specific objectives and age criteria are met. Commitments to future payments in respect of approved plans amounted to £13.6 million at 31 March 2002 (£11.5 million in 2000-01). Applications for planting and replanting grants, awaiting approval at 31 March 2002, amounted to £nil (£nil in 2000-01). These amounts are not included above.

13 Provision for Liabilities and Charges (Early Retirement Compensation Payments)

	2001-02 £000	2000-01 £000
Compensation payments:		
Balance at 1 April 2001	-	-
Utilised in year	-	-
Increase in provision	-	-
Balance at 31 March 2002	-	-
Amounts falling due within one year	-	-
Amounts falling due after more than one year	-	-

The provision for liabilities and charges relates solely to early retirement compensation payments of £nil (£nil for 2000-01) falling due after more than one year. The Forestry Commission is required to meet the additional cost of benefits beyond the normal pension scheme benefits in respect of employees who retire early. It provides in full for this cost when an obligation to pay such costs has been entered into and subsequent annual payments to individuals are set against the provision.

14 Reconciliation of Net Operating Cost to changes in General Fund

	2001-02 £000	RESTATED 2000-01 £000
Net operating cost for the year (Schedule 2)	(73,297)	(80,419)
Net Parliamentary funding	38,800	32,647
	(34,497)	(47,772)
Adjustment for consolidated FE totals (Note 4)	35,916	37,118
FE diminution in value included in net operating cost	-	11,412
	1,419	758
Notional cost of capital	50	53
Transfer of fixed assets from/to other forestry bodies	(30)	-
Non-cash inter-country transfers	160	5
Notional audit fees	30	26
Amounts issued from the Scottish Executive for supply but not spent at year end	(1,295)	-
Cash transferred to FC in England/GB	(1,295)	-
	(961)	842
In year movement in FE general fund	(3,163)	18,849
	(4,124)	19,691
Adjustment between general fund and revaluation reserve	-	(186,929)
Net increase/(decrease) in general fund	(4,124)	(167,238)
General fund as at 31 March 2001	417,114	584,352
General fund as at 31 March 2002 (Schedule 3)	412,990	417,114

Non-cash inter-country transfers include transfers of provisions, VAT to the Forestry Commission in England/Great Britain and workers clothing. The net total of the transactions for 2001-02 is £160,000.

The 2000-01 published accounts treated the combined movement of FE's capital and reserves as an adjustment to the Forestry Commission's general fund. From 2001-02 onwards, the movement in FE's revaluation reserve is reflected in the Forestry Commission's revaluation reserve and the 2000-01 accounts are restated on the same basis. The in year movement of FE's capital and reserves in 2000-01 also included an adjustment for the internal transfer of assets between England/GB and Scotland and Wales.

Notes to the Resource Accounts (continued)

15 Revaluation Reserve

	2001-02 £000	RESTATED 2000-01 £000
Balance at 1 April 2001	156,668	–
Adjustment between general fund and revaluation reserve	–	186,929
	156,668	186,929
FC revaluation surplus/(deficit) for the year	2	–
In year movement in FE revaluation reserve	(25,216)	(30,261)
Balance at 31 March 2002	131,454	156,668

The 2000-01 published accounts treated the combined movement of FE's capital and reserves as an adjustment to the Forestry Commission's general fund. From 2001-02 onwards, the movement in FE's revaluation reserve is reflected in the Forestry Commission's revaluation reserve and the 2000-01 accounts are restated on the same basis. The in year movement of FE's capital and reserves in 2000-01 also included an adjustment for the internal transfer of assets between England/GB and Scotland and Wales.

16 Schedule 5

Expenditure in Schedule 5 comprises the direct costs incurred by the Forestry Commission in Scotland's national office and indirect costs which have been allocated by individual cost centres or apportioned pro rata to the directly attributable costs. An analysis was undertaken to determine the costs attributable to each of the objectives for the core department. In a multi-benefit forestry strategy where many activities will contribute to more than one objective, the allocation of costs has been undertaken by senior staff in each area based on an informed judgement of each activity. Forest Enterprise has been included in Schedule 5 to the extent of the net cost to the Forestry Commission (operating deficit plus cost of capital). Costs are identified in the Forest Enterprise by activity and these activities have been allocated to objectives.

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

	2001-02	2000-01
Maximise the value to the Scottish economy of the wood resource becoming available over the next 20 years	23	22
Create a diverse forest resource of high quality that will contribute to the economic needs of Scotland throughout the 21st century and beyond	37	38
Help communities benefit from woods and forest	7	6
Create opportunities for more people to enjoy trees, woods and forests in Scotland	6	5
Make sure that Scotland's trees, woods and forests make a positive contribution to the environment	8	7
Total	81	78

17 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:

	2001-02 £000	2000-01 £000
Building leases expiring within:		
One year	–	–
Two to five years	26	–
More than five years	36	–
Total	62	–

18 Contingent Liabilities

There were no contingent liabilities at 31 March 2002 for damages caused to other persons' property or for compensation for personal injury to employees (Enil as at 31 March 2001).

19 Related Party Transactions

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

In addition, the Forestry Commission has had various material transactions with other government departments and other central government bodies. The main entities within government with which the Forestry Commission has had dealings are HM Treasury, Welsh Assembly, Scottish Executive, UK Co-ordinating Body, the Paymaster General's Office, Customs and Excise, the Inland Revenue and the Department for the Environment, Food and Rural Affairs (and its predecessors prior to June 2001, the Ministry of Agriculture, Fisheries and Food and the Department for Environment, Transport and the Regions).

In the year to 31 March 2002, Forest Enterprise entered into the following material transaction involving non-executive Commissioners:

Mr Tom Bruce Jones is a director of James Jones and Sons Ltd which purchased approximately 387,000 cubic metres of timber at £6,846,000 from Forest Enterprise.

Notes to the Resource Accounts (continued)

20 Financial Instruments

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

Liquidity risk

The Forestry Commission in Scotland's net revenue resource requirements are financed by resources voted annually by the Scottish Executive, just as its capital expenditure is. The Forestry Commission in Scotland is not therefore exposed to significant liquidity risks.

Interest-rate risk

The Forestry Commission in Scotland is not exposed to interest-rate risk.

Foreign currency risk

The Forestry Commission in Scotland is not exposed to foreign currency risk.

Fair Values

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

21 Losses Statement

Losses totalled £267,000 from 74 cases (£157,000 from 60 cases in 2000-01) and a further £269,000 was paid in 54 special payments cases (£227,000 in 40 cases in 2000-01). Special cases included one payment of £144,000 in settlement of an injury at work case.

22 Entities within the Departmental Boundary

The entity within the boundary of the Forestry Commission resource accounts during 2001-02 was as follows:

Forest Research agency – although forestry is a devolved subject, the agency continues to be funded from the UK Government and is consolidated into the Forestry Commission in England/Great Britain accounts. It also publishes its own annual report and accounts.

Accounts Direction given by the Scottish Executive

Direction by the Scottish Ministers in accordance with Section 45(1) of the Forestry Act 1967.

- 1 The Forestry Commission shall prepare resource accounts in respect of its activities in Scotland for the financial year ended 31 March 2000 and subsequent financial years, shall comply with the accounting principles and disclosure requirements of the edition of the Resource Accounting Manual which is in force for the year for which the resource accounts are prepared.
- 2 The statement of account shall give a true and fair view of the net resource outturn, resources applied to objectives, recognised gains and losses and cash flows for the financial year, and the state of affairs as at the end of the financial year.
- 3 This direction shall be reproduced as an appendix to the resource accounts.

Signed by the authority of the Scottish Ministers

P S Collings

28 November 2000

Contents

89	Foreword
92	Statement of Forestry Commission's and Chief Executive's Responsibilities
93	Statement on Internal Control
95	Auditor's Report to the Scottish Parliament and the Auditor General for Scotland
97	Income and Expenditure Account
98	Statement of Total Recognised Gains and Losses
99	Balance Sheet
100	Cash Flow Statement
101	Notes to the Accounts
114	Direction by the Scottish Ministers

Foreword

1 Accounts Direction

The accounts have been prepared under a direction given by the Scottish Ministers in pursuance of Section 45(1) of the Forestry Act 1967. The direction is produced as an appendix to the accounts.

2 Background Information

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

In line with the normal arrangements for agencies the quinquennial review of Forest Enterprise was completed in 2001. Forestry Ministers decided that Forest Enterprise should retain its status as an executive agency of the Forestry Commission. When announcing the conclusions of the review in May 2001, Forestry Ministers also announced a review of the devolution arrangements for delivering sustainable forestry policies in England, Scotland and Wales and the UK's international forestry commitments. In August 2002, Forestry Ministers agreed the recommendations of the inter-departmental group conducting the review which included devolving Forest Enterprise into three bodies, charged with managing separately the public forests in England, Scotland and Wales.

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

3 Aims and Objectives

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

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

Foreword (continued)

Details of the financial performance targets set for Forest Enterprise by the Forestry Commissioners and achievement against those targets are shown in Note 18 to the Accounts. Achievements against other non-financial targets are noted in Forest Enterprise's Annual Report published separately.

4 Review of Activities

Forest Enterprise in Scotland incurred a net deficit on its Income and Expenditure Account of £56,518,000 compared to £53,184,000 in 2000-01. A comparison of income and expenditure with the previous year shows that:

- the operating deficit increased by £3,588,000, mainly through a drop in income of £3,607,000 from depressed timber prices and the effects of foot and mouth disease;
- net spending on recreation, conservation and heritage increased by £1,037,000 to achieve new projects funded through various sources of sponsorship and grant-in-aid;
- the deficit on sale of properties reduced by £97,000;
- cost of capital reduced by £1,194,000 as a result of the downward revaluation of the forest estate.

After adjusting the total deficit for items not involving the movement in cash and for capital expenditure and income, the net cash funding received from the Forestry Commission was £20,602,000, compared to £16,067,000 in 2000-01.

5 Changes in Fixed Assets

Additions to the forest estate and other land amounted to £1,108,000 compared to disposals and transfers of £1,434,000. Work on houses, office buildings and toilet blocks was completed to the value of £615,000. Purchases of forestry vehicles, machinery and equipment amounted to £2,209,000 compared with disposals and transfers worth £441,000. A further £80,000 was spent on office equipment.

6 Research and Development

Forest Research, an executive agency of the Forestry Commission, is responsible for carrying out forest research and allied work. Forest Enterprise commissions research from 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.

7 Movements in Reserves

The revaluation reserve was adjusted for the downward revaluation of the forest estate amounting to £33,473,000 and an upward revaluation of other land by £5,984,000. Forest Holidays land value decreased by £115,000 on revaluation and other buildings increased by £2,623,000. Forestry vehicles, machinery and equipment values decreased by £246,000.

8 Post-Balance Sheet Events

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

9 Supplier Payment Policy

Forest Enterprise complies with the government's Better Payment Practice Code. Unless otherwise stated in the contract, we aim to pay within 30 days from the receipt of goods and services or the presentation of a valid invoice, whichever is the later. A sample analysis for 2001-02 indicates that 93.8% of invoices were paid within the due date. Arrangements for handling complaints on payment performance are notified to suppliers on contracts.

10 Employment Policies

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

11 Management Board

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

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

Iain Miller moved to the Forestry Commission in August 2001 as part of an internal reorganisation. Wilma Harper moved, on promotion, to the Forestry Commission in January 2002 and was replaced by Peter Weston as acting Head of Forest Planning.

12 Auditors

These accounts are audited by auditors appointed by the Auditor General for Scotland.

R McIntosh

Chief Executive and Accountable Officer

14 November 2002

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

Under Section 45(1) of The Forestry Act 1967, the Scottish Ministers have directed the Forestry Commission to prepare a statement of accounts for Forest Enterprise in Scotland for each financial year in the form and on the basis set out in the accounts direction at Appendix 1 to these accounts. The accounts are prepared on an accruals basis and must give a true and fair view of the Forest Enterprise in Scotland state of affairs at the year end and of its income and expenditure and cash flows for the financial year.

In preparing the accounts the Forestry Commission is required to:

- observe the accounts direction at Appendix 1 to these financial statements, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards have been followed, and disclose and explain any material departures in the financial statements;
- prepare the financial statements on the going concern basis, unless it is inappropriate to assume that Forest Enterprise will continue in operation.

The Principal Accountable Officer has designated the Chief Executive of Forest Enterprise as Agency Accountable Officer for Forest Enterprise. His relevant responsibilities as Agency Accountable Officer, including his responsibility for the propriety and regularity for the public finances and for the keeping of proper records, are set out in the Memorandum to Accountable Officers from the Principal Accountable Officer.

Statement on Internal Control

As Accountable Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of the Agency's policies, aims and objectives, set by Ministers, whilst safeguarding the public funds and assets for which I am personally responsible, in accordance with the responsibilities assigned to me. Control of certain activities is carried out by the Forestry Commission on the Agency's behalf, and in respect of those I place reliance on the Forestry Commission's Statement on Internal Control.

The system of internal control is designed to manage rather than eliminate the risk of failure to achieve policies, aims and objectives: it can therefore only provide reasonable and not absolute assurance of effectiveness.

The system of internal control is based on an ongoing process designed to identify the principal risks to the achievement of the Agency's policies, aims and objectives, to evaluate the nature and extent of those risks and to manage them efficiently, effectively and economically. By March 2002 I had put in place the procedures necessary to implement guidance from Scottish Ministers and these will operate fully in the coming year.

We have agreed and promulgated a risk management policy. Working with responsible managers, we have developed a risk register for the principal risks to the achievement of Agency policies, aims and objectives. These identify the risks, the adequacy of the controls and any corrective action required. This has been endorsed by the Agency Management Board. We have introduced the topic into a series of financial awareness seminars to be attended during the coming year by staff of all grades with financial responsibilities.

The Management Board meets monthly to consider the plans and strategic direction of the Agency. It receives regular reports from managers on key projects. The risk management policy ensures that the Management Board includes risk management within its remit and formally tasks it with its review. There will be a full risk and control assessment before reporting on the year ending 31 March 2003.

The Agency has an Audit Committee which reviews matters concerning risk and internal control within the Agency. The effectiveness of risk management and control across the Forestry Commission and its Agencies, including Forest Enterprise, is also monitored by the overarching Forestry Commission Audit Committee. The work of the internal and external auditors is currently reported annually to the full Board of Commissioners; in future this will be expanded to cover the full business of the overarching Forestry Commission Audit Committee.

Statement on Internal Control (continued)

In addition to the actions mentioned on the previous page, in the coming year we will:

- implement the financial awareness seminars which introduce the concepts of risk management;
- maintain the Agency risk register and review the planned actions;
- submit a report on the Agency's internal control activities to the Departmental Accountable Officer.

The Forestry Commission has an Internal Audit Unit, which operates to standards defined in the Government Internal Audit Manual. It submits regular reports which include the Head of Internal Audit's independent opinion on the adequacy and effectiveness of the Agency's system of internal control together with recommendations for improvement.

My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within the Agency who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letters and other reports.

R McIntosh

Chief Executive and Accountable Officer

14 November 2002

Auditor's Report to the Scottish Parliament and the Auditor General for Scotland

I have audited the financial statements on pages 97 to 113 under the Forestry Act 1967. These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages 101 to 104.

Respective Responsibilities of the Agency, the Chief Executive and Auditor

As described on page 92 the Agency and Chief Executive are responsible for the preparation of the financial statements and for ensuring the regularity of financial transactions. The Agency and Chief Executive are also responsible for the preparation of the other contents of the Annual Report. My responsibilities, as independent auditor, are established by the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice approved by the Auditor General for Scotland, and guided by the auditing profession's ethical guidance.

I report my opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Forestry Act 1967 and directions made thereunder by the Scottish Ministers and whether, in all material respects:

- the expenditure and receipts shown in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers, the Budget (Scotland) Act covering the financial year and Sections 4 to 7 of the Public Finance and Accountability (Scotland) Act 2000;
- the sums paid out of the Scottish Consolidated Fund for the purpose of meeting the expenditure shown in the financial statements were applied in accordance with Section 65 of the Scotland Act 1998.

I also report if, in my opinion, the Foreword is not consistent with the audited financial statements, if the Agency has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

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

I review whether the statement on pages 93 and 94 complies with Scottish Executive guidance on statements on the system of internal control. I report if the statement does not comply with the guidance, or if the statement is misleading or inconsistent with other information I am aware of from my audit.

Auditor's Report to the Scottish Parliament and the Auditor General for Scotland (continued)

Basis of Audit Opinions

I conducted my audit in accordance with the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice, which requires compliance with relevant United Kingdom Auditing Standards issued by the Auditing Practices Board.

An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of expenditure and receipts shown in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Agency and Chief Executive in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Agency's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error, and that, in all material respects, the expenditure and receipts shown in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinions

Financial statements

In my opinion the financial statements give a true and fair view of the state of affairs of the Forest Enterprise in Scotland at 31 March 2002 and of the deficit, recognised gains and losses and cash flows for the year then ended and have been properly prepared in accordance with the Forestry Act 1967 and directions made thereunder by the Scottish Ministers.

Regularity

In my opinion, in all material respects the expenditure and receipts shown in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers.

Gillian Woolman ACA

Chief Auditor
15 November 2002

Audit Scotland
Osborne House
Osborne Terrace
Edinburgh EH12 5HG

Income and Expenditure Account

for the year ended 31 March 2002

	Notes	2002 £000	2001 £000
Operating income			
Sales of timber		34,313	36,505
Forest protection and maintenance		1,007	1,347
Management and development of estate	2b	3,987	5,062
		39,307	42,914
Operating expenditure			
Forest planning		4,360	3,606
Harvesting and haulage of timber		22,797	22,419
Forest roads		8,294	8,783
Forest protection and maintenance		16,319	16,128
Management and development of estate	2b	3,432	4,285
		55,202	55,221
		(15,895)	(12,307)
Recreation, conservation and heritage (RC&H)			
Income		2,180	1,679
Expenditure		9,076	7,538
		(6,896)	(5,859)
		(22,791)	(18,166)
Operating deficit net of RC&H			
Deficit on sale of properties	4	(230)	(327)
		(23,021)	(18,493)
Deficit			
Notional cost of capital	5	(33,497)	(34,691)
		(56,518)	(53,184)
Net deficit for the year			
Transferred to general fund		(56,518)	(53,184)

There have been no discontinued operations during the year

The Notes on pages 101 to 113 form part of these accounts

Statement of Total Recognised Gains and Losses

for the year ended 31 March 2002

	2002 £000	2001 £000
Net deficit for the year	(56,518)	(53,184)
Revaluation deficit for the year	(25,216)	(30,260)
Total recognised gains/(losses)	(81,734)	(83,444)

The Notes on pages 101 to 113 form part of these accounts.

Balance Sheet

as at 31 March 2002

	Notes	2002 £000	2001 £000
Fixed assets			
Tangible fixed assets	6	536,110	562,299
Current assets			
Stocks	7	4,582	4,123
Debtors	8	7,469	8,725
Cash at banks and in hand	9	2	4
		12,053	12,852
Creditors: amounts falling due within one year	10	(3,584)	(2,602)
Net current assets		8,469	10,250
Provision for liabilities and charges	11	(482)	(73)
Total assets less liabilities		544,097	572,476
Capital and reserves			
General fund	12	412,645	415,808
Revaluation reserve	13	131,452	156,668
Total capital and reserves		544,097	572,476

The Notes on pages 101 to 113 form part of these accounts

R McIntosh

Chief Executive and Accountable Officer

14 November 2002

Cash Flow Statement

for the year ended 31 March 2002

	Notes	2002 £000	2001 £000
Reconciliation of net deficit to net cash flow from operating activities			
Net deficit for the year		(56,518)	(53,184)
Notional cost of capital		33,497	34,691
Depreciation charges		2,507	2,718
(Profit)/loss on sale of properties	4	(309)	(193)
(Profit)/loss on sale of other tangible fixed assets		443	(256)
Non-cash inter-country transfers	12	(721)	182
(Increase)/decrease in stocks		(459)	184
(Increase)/decrease in debtors		1,256	671
Increase/(decrease) in creditors		1,391	(323)
Net cash outflow from operating activities		(18,913)	(15,510)
Cash flow statement			
Net cash outflow from operating activities		(18,913)	(15,510)
Capital			
New planting		(788)	(623)
Payments to acquire tangible fixed assets		(3,224)	(2,946)
Receipts from sale of properties	4	2,321	2,063
Receipts from sale of other tangible fixed assets		-	951
Net capital		(1,691)	(555)
Net cash outflow after capital		(20,604)	(16,065)
Financing			
(Surplus)/deficit funded by Forestry Commission		20,602	16,067
Increase/(decrease) in cash		(2)	2
Reconciliation of net cash flow to movements in net funds			
Increase/(decrease) in cash		(2)	2
Net funds at 1 April 2001		4	2
Net funds at 31 March 2002		2	4

The Notes on pages 101 to 113 form part of these accounts

Notes to the Accounts

Note 1 Accounting Policies

A Accounting Convention

In accordance with Section 45(1) of The Forestry Act 1967, the accounts are drawn up in a format agreed and approved by the Scottish Ministers. The accounts are prepared under the historical cost convention modified by the inclusion of the valuation of assets. Without limiting the information given, the accounts meet the requirements of the Companies Acts and of the Financial Reporting Standards where relevant.

B Tangible Fixed Assets

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

The forest estate is revalued every five years by regional valuation panels, taking account of the species mix, age, yield class and other relevant factors. The open market value assessment is 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 is further assumed that no restraints exist, as they do in practice, from title, statute and environmental considerations. Each regional panel issues a valuation certificate which follows the principles of RICS Statements of Asset Valuation Practice and Guidance Notes and Financial Reporting Standards. In the absence of an annual forestry based index, an external professional opinion of the open market value is obtained each year which is outside the RICS Red Book Guidelines and without reference to the valuation panels which undertook the 1998 five-year revaluation.

Non-forest land and buildings are assessed at 3-yearly intervals by professionally qualified staff employed by the Forestry Commission following the principles set out in the RICS Appraisal and Valuation Manual. Wherever possible, non-forest land and buildings are valued on the basis of their open market value (OMV) taking account of all relevant circumstances which may affect value. In those infrequent cases where it is not possible to assess the OMV, buildings are assessed on the basis of their depreciated replacement cost (DRC). In the intervening years a general price index is applied.

Forest Holidays land and buildings are revalued annually by a specialist leisure business firm.

Forestry vehicles, machinery and equipment (VME) are revalued every three years by professionally qualified staff employed by the Forestry Commission. In the intervening years a general price index is applied.

Office machinery and equipment (OME) values are updated annually using a general price index.

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

Notes to the Accounts (continued)

The revaluation reserve was restated on 1 April 1992 when the basis of accounting for the forest estate changed to open market value. The balance as at 31 March 1996 was then brought forward as the agency's opening revaluation reserve balance but was not apportioned between the classes of asset. The revaluation reserve should be adjusted regularly to take account of disposals as well as regular adjustments for open market price movements and general index price movements to comply with FRS 11 and FRS 15. Forest Enterprise is of the opinion that the level of forest estate disposals since 1996 are not sufficiently significant that adjustments to the revaluation reserve would be material. It is also difficult to distinguish in the revaluation reserve between increases due to growing timber volumes and to price movements. The revaluation reserve is adjusted instead when any surplus or deficit is accounted for at the year end or when its other assets are professionally revalued. As part of the five-year revaluation due on 31 March 2003, Forest Enterprise will review the accounting for the forest estate.

C Depreciation of Tangible Fixed Assets

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

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

Freehold buildings	–	over 20-60 years
Leasehold buildings	–	over the lease term
Plant and machinery	–	over 3-16 years
Office equipment	–	over 4-20 years

D Intangible Fixed Assets

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

E Stocks

Finished goods and work in progress are valued as follows:

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

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

F Provision for Bad and Doubtful Debts

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

G Research and Development

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

H Capital Charge

A notional charge, reflecting the cost of capital used by Forest Enterprise in Scotland, is included in the income and expenditure account. The charge is calculated at the government's standard rate of 6 per cent in real terms on total assets less liabilities.

I Taxation

Forest Enterprise is not subject to corporation tax.

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

J Operating Leases

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

K Insurance

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

L Pensions

Until 30 November 2001, the Forestry Commission ran a pension scheme for its staff by analogy with the Principal Civil Service Pension Scheme (PCSPS). The final separate Pension Scheme accounts are published in the Forestry Commission in England/Great Britain Annual Report as it is a reserved Great Britain matter. In accordance with Treasury Accounts directions, the liabilities of the pension scheme are shown in the pension scheme statement, whilst employers' and employees' contributions are included in the accounts of the Forestry Commission and its agencies under staff costs.

From 1 December 2001 the Forestry Commission Pension Scheme was subsumed into the PCSPS. Present and past employees are covered by the provisions of the PCSPS, which is non-contributory and unfunded apart from contributions for widows'/widowers' benefits. Although the scheme is a defined benefit scheme, liability for payment of future benefits is a charge to the PCSPS. Government bodies covered by the PCSPS meet the cost of pension cover provided for the staff they employ by payment of charges calculated on an accruing basis. There is a separate scheme statement for the PCSPS as a whole.

Notes to the Accounts (continued)

The aggregate payroll costs were as follows:

	2002 £000	2001 £000
Salaries	19,775	19,815
Social security costs	1,336	1,434
Employers superannuation costs	2,634	2,663
	23,745	23,912

Until 30 November 2001 staff were covered by the Forestry Commission Pension Scheme (FCPS) which was a defined benefit pension scheme. The employers' contribution rates to the FCPS were in the range 15-22 per cent, according to grade, as determined by the Government Actuary. Actual payments were met by the Forestry Commission and reflected in the final FCPS accounts which can be found in the Forestry Commission in England/Great Britain Annual Report. From 1 December 2001 the scheme was subsumed into the Principal Civil Service Pension Scheme (PCSPS). The 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 was carried out at 31 March 1999. Details can be found in the resource accounts of the Cabinet Office; Civil Superannuation (www.civilservice-pensions.gov.uk). For 2001-02, employers' contributions of £828,000 were payable to the PCSPS (£Nil in 2000-01) at one of the four rates in the range 12-18.5 per cent of pensionable pay, based on salary bands. Rates will remain the same for the next two years, subject to revalorisation of the salary bands. Employer contributions are to be reviewed every four years following a full scheme valuation by the Government Actuary. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

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

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

The advances of salary for house purchase scheme had 16 loans with an outstanding balance of £2,500 or more to individual members of staff at 31 March 2002. The total value of these loans was £95,402. In addition, there was 1 loan with an outstanding balance of £9,353 to a member of staff employed on a Great Britain basis. For accounting purposes, the loan is spread over the countries on an agreed basis.

(b) Management Board

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

Board Member	Age	Salary £000	Real increase in pension at age 60 £000	Total accrued pension at age 60 at 31 March 2002 £000
Bob McIntosh	50	75-80	0-2.5	25-30
Bob Farmer	53	50-55	0-2.5	15-20
Geoff Hatfield	50	65-70	0-2.5	20-25
Hugh Insley	53	50-55	0-2.5	20-25
Mike Lofthouse	57	55-60	0-2.5	20-25
Ian Forshaw	46	45-50	0-2.5	10-15
Keith Gliddon	50	45-50	0-2.5	15-20
Wilma Harper	46	45-50	0-2.5	10-15
Craig Heaney	53	55-60	0-2.5	20-25
Iain Miller	56	45-50	0-2.5	20-25
Peter Ranken	51	55-60	0-2.5	20-25
Alan Stevenson	44	50-55	0-2.5	10-15
Peter Weston	43	45-50	0-2.5	5-10

Salaries include gross salaries, performance bonuses and benefits in kind.

Pension benefits are provided through the Principal Civil Service Pension Scheme. The scheme provides benefits on a 'final salary' basis at a normal retirement age of 60. Benefits accrue at the rate of 1/80th of pensionable salary for each year of service. In addition a lump sum equivalent to 3-years' pension is payable on retirement. Members pay contributions of 1.5% of pensionable earnings for the provision of widow's and children's benefits. Pensions increase in payment in line with the Retail Price Index. On death, pensions are payable to the surviving spouse at a rate of half the member's pension. On death in service, the scheme pays a lump sum benefit of twice pensionable pay and also provides a service enhancement on computing the spouse's pension. The enhancement depends on length of service and cannot exceed 10 years. Medical retirement is possible in the event of serious ill-health. In this case, pensions are brought into payment immediately without actuarial reduction and with service enhanced as for widow(er) pensions.

Notes to the Accounts (continued)

Note 4 Sale of Properties

	2002 £000	2001 £000
Income	2,321	2,063
Book value	(2,012)	(1,887)
	309	176
Disposal costs:		
External costs	(275)	(205)
Administrative expenses	(264)	(298)
Deficit on sale of properties	(230)	(327)

Note 5 Notional Cost of Capital

Notional cost of capital based on 6% of average total assets less liabilities employed in 2001-02 amounted to £33,497,000.

Note 6 Tangible Fixed Assets

	Forest Estate £000	Land £000	Forest Holidays Land £000	Buildings £000	Forest Holidays Buildings £000	VME £000	OME £000	Total £000
Valuation:								
At 1 April 2001	526,733	12,786	1,345	13,976	1,197	28,345	2,943	587,325
Additions	883	225	-	615	-	2,209	80	4,012
Disposals/transfers	(1,392)	(42)	-	(678)	13	(5,820)	(72)	(7,991)
Revaluation adjustment	(33,473)	5,984	(115)	1,278	(103)	(1,352)	-	(27,781)
At 31 March 2002	492,751	18,953	1,230	15,191	1,107	23,382	2,951	555,565
Depreciation:								
At 1 April 2001	-	-	-	941	110	21,742	2,233	25,026
Provided during year	-	-	-	467	59	1,777	204	2,507
Disposals/transfers	-	-	-	(63)	1	(5,379)	(72)	(5,513)
Revaluation adjustment	-	-	-	(1,345)	(114)	(1,106)	-	(2,565)
At 31 March 2002	-	-	-	-	56	17,034	2,365	19,455
Net book value:								
At 31 March 2002	492,751	18,953	1,230	15,191	1,051	6,348	586	536,110
At 1 April 2001	526,733	12,786	1,345	13,035	1,087	6,603	710	562,299

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

The forest estate was subject to a full professional revaluation as at 31 March 1998 by regional valuation panels comprising Bidwells, John Clegg and Co., Savills, Smiths Gore and Strutt and Parker as well as professionally qualified land agents employed by the Forestry Commission. In the intervening years the valuation has been updated annually using an external professional opinion from Bidwells and John Clegg and Co. The next full revaluation is due as at 31 March 2003. Non-forest land and buildings were subject to a triennial revaluation as at 31 March 2002 by professionally qualified land agents employed by the Forestry Commission. Forest estate and other land and buildings assets comprise both freehold and leasehold assets.

Forest Holidays land and buildings were revalued by Barrs and Co. of Leeds as at 31 March 2002.

Forestry vehicles, machinery and equipment (VME) were subject to a triennial revaluation as at 31 March 2002 by professionally qualified staff employed by the Forestry Commission.

A nil revaluation increase was applied to office machinery and equipment (OME) as at 31 March 2002.

Note 7 Stocks

	2002 £000	2001 £000
Timber	2,006	1,903
Plants and seed	1,686	1,472
Consumable materials, supplies and livestock	890	748
	4,582	4,123

Note 8 Debtors

	2002 £000	2001 £000
Trade debtors	6,002	8,441
Other debtors	317	284
Prepayments	1,150	-
	7,469	8,725

Other debtors include amounts falling due after more than one year of £113,000 (£125,000 as at 31 March 2001).

Note 9 Cash at Banks and in Hand

	2002 £000	2001 £000
Cash at commercial banks and in hand	2	4
	2	4

Cash, except petty cash, is held by the Forestry Commission GB/England.

Notes to the Accounts (continued)

Note 10 Creditors: amounts falling due within one year

	2002 £000	2001 £000
Payments received on account	457	36
Trade creditors	2,474	2,316
Provision for compensation charges	136	27
Other creditors including taxation and social security costs	517	223
	<u>3,584</u>	<u>2,602</u>

Creditors include a provision of £377,000 for known cases of employers liability claims where the value and likely timing of these payments is uncertain (£212,000 in 2000-01).

Note 11 Provision for Liabilities and Charges

	2002 £000	2001 £000
Balance at 1 April 2001	100	2
Utilised in year	(60)	-
Increase in provision	578	98
Balance at 31 March 2002	<u>618</u>	<u>100</u>
Amounts falling due within one year	136	27
Amounts falling due after more than one year	482	73

The provision for liabilities and charges relates solely to early retirement compensation payments of £482,000 (£73,000 for 2000-01) falling due after more than one year. The Forestry Commission is required to meet the additional cost of benefits beyond the normal pension scheme benefits in respect of employees who retire early. It provides in full for this cost when an obligation to pay such costs has been entered into and subsequent annual payments to individuals are set against the provision.

Note 12 General Fund

	2002 £000	2001 £000
Balance brought forward	415,808	396,959
Movement in year:		
- Net deficit for year	(56,518)	(53,184)
- Notional cost of capital	33,497	34,691
- Cash deficit funded by Forestry Commission	20,602	16,067
- Transfers of fixed assets from/to other Forestry Bodies	(23)	-
- Transfers between general fund and revaluation reserve	-	21,093
- Non-cash inter-country transfers	(721)	182
	<u>(3,163)</u>	<u>18,849</u>
Balance carried forward	<u>412,645</u>	<u>415,808</u>

Non-cash inter-country transfers include transfers of provisions, VAT to the Forestry Commission in England/Great Britain and workers clothing. The net total of the transactions for 2001-02 is £721,000.

Note 13 Revaluation Reserve

	2002 £000	2001 £000
Cumulative revaluation reserve brought forward	156,668	186,928
Transfers between general fund and revaluation reserve:	-	(21,093)
Revaluation deficit for the year ended 31 March 2002		
- Forest Estate	(33,473)	(9,804)
- Land	5,984	170
- Forest Holidays land	(115)	114
- Buildings	2,623	184
- Forest Holidays buildings	11	97
- VME	(246)	84
- OME	-	(12)
	<u>(25,216)</u>	<u>(9,167)</u>
Balance carried forward	<u>131,452</u>	<u>156,668</u>

Note 14 Operating Leases

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

	2002 £000	2001 £000
Land and building leases expiring within:		
One year	8	10
Two to five years	24	30
More than five years	139	141
	<u>171</u>	<u>181</u>

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

	2002 £000	2001 £000
Land and building leases expiring within:		
One year	-	-
Two to five years	10	10
More than five years	49	49
	<u>59</u>	<u>59</u>

Notes to the Accounts (continued)

	2002 £000	2001 £000
Other leases expiring within:		
One year	-	281
Two to five years	3,291	2,714
More than five years	80	15
	<u>3,371</u>	<u>3,010</u>

Note 15 Contingent Liabilities

There were no contingent liabilities at 31 March 2002 for damages caused to other persons' property and for compensation for personal injury to employees (£250,000 at 31 March 2001). The amount and timing of payment is dependent on the outcome of each case which can, in some instances, involve lengthy legal proceedings.

Note 16 Related Party Transactions

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

In addition, Forest Enterprise has had various material transactions with other government departments and other central government bodies. The main entities within government with which Forest Enterprise has had dealings are HM Treasury, Welsh Assembly, Scottish Executive, Paymaster General's Office, Customs and Excise, the Inland Revenue and the Department for Environment, Food and Rural Affairs (and its predecessors prior to June 2001, the Ministry of Agriculture, Fisheries and Food and the Department for the Environment, Transport and the Regions).

In the year to 31 March 2002, Forest Enterprise entered into the following material transaction involving the non-executive Commissioners of the Forestry Commission:

Mr Tom Bruce Jones is a director of James Jones and Sons Ltd. which purchased approximately 387,000 cubic metres of timber at £6,846,000 from Forest Enterprise.

Note 17 Losses Statement

Losses totalled £133,000 from 54 cases with a further £269,000 paid in 50 special payments. Special payments included one payment of £144,000 in settlement of an injury at work case. This compares with losses totalling £12,000 from 36 cases with a further £227,000 in 37 special payments in 2000-01.

Note 18 Financial Performance Measures

The financial performance measures set by the Forestry Commissioners for 2001-02 and the actual outturns achieved were:

	Achieved £000	Target £000
Operating deficit	15,895	14,200
Cash deficit	20,602	20,700
Gross receipts from sale of properties	2,321	1,600

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

Appendix 1

Direction by the Scottish Ministers

in accordance with Section 45(1) of the Forestry Act 1967

- 1 The Forestry Commission shall prepare accounts for Forest Enterprise of its activities in Scotland for the financial year ended 31 March 2002 and subsequent financial years comprising:
 - (a) a foreword;
 - (b) an income and expenditure account;
 - (c) a statement of total recognised gains and losses;
 - (d) a balance sheet;
 - (e) a cash flow statement;
 - (f) a statement of Accountable Officer's responsibilities; and
 - (g) a statement on the system of internal control;

including such notes as may be necessary for the purposes referred to in the following paragraphs.
- 2 The accounts shall give a true and fair view of the income and expenditure, and cash flows for the financial year, and of the state of affairs as at the end of the financial year.
- 3 Subject to this requirement, the accounts shall be prepared in accordance with:
 - (a) generally accepted accounting practice in the United Kingdom (UK GAAP);
 - (b) the disclosure and accounting requirements contained in guidance which the Scottish Ministers may issue from time to time in respect of accounts which are required to give a true and fair view;

insofar as these are appropriate to Forest Enterprise and are in force for the financial year for which the accounts are to be prepared.
- 4 Clarification of the application of the accounting and disclosure requirements of the Companies Act and accounting standards is given in Schedule 1 attached. Additional disclosure requirements are set out in Schedule 2 attached.
- 5 The income and expenditure account and balance sheet shall be prepared under the historical cost convention modified by the inclusion of:
 - (a) the forest estate at its existing use value;
 - (b) land and buildings at their existing use value where a market exists, otherwise at depreciated replacement cost;
 - (c) machinery, plant and equipment at current replacement cost;
 - (d) commercial recreation assets at their existing use value, and
 - (e) stocks of seed at the lower of cost or net realisable value, stocks of plants and livestock at net realisable value and stocks of consumable materials at current replacement cost.
- 6 This direction shall be reproduced as an appendix to the accounts and supersedes that issued on 28 November 2000.

Signed by the authority of the Scottish Ministers

P S Collings

19 July 2002

Schedule 1

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

Companies Act

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

Accounting standards

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

Schedule 2

Additional Disclosure Requirements

Foreword

- 1 The foreword shall, inter alia:
 - (a) state that the accounts have been prepared in accordance with a direction given by the Scottish Ministers in accordance with Section 45(1) of The Forestry Act 1967;
 - (b) include a brief history of Forest Enterprise and its statutory background.

Income and Expenditure Account

- 2 The income and expenditure account shall show, inter alia:
 - (a) under "operating income":
 - sales of timber;
 - other forest sales;
 - other activities.
 - (b) under "operating expenditure" costs analysed 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.giving operating surplus/deficit net of recreation, conservation and heritage
 - (e) the surplus/deficit arising from the sale of properties and the notional cost of capital;
 - (f) the "net surplus/deficit for the year" which shall be transferred to the general fund.
- 3 Minor changes may be made to the headings in the accounts without the approval of the Scottish Ministers.

Notes to the Accounts

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

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