



ANNUAL REPORT AND ACCOUNTS

2006-07

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Introduction by Dr Calum MacDonald, Chair, National Committee Scotland

In this, my first year chairing Forestry Commission Scotland's National Committee, I have overseen the launch of the new Scottish Forestry Strategy which gives the whole forestry sector a shared vision and a new impetus to achieve it. The strategy's vision is a long term one, seeing Scotland's forestry resource becoming a central part of our culture, economy and environment as we look to the second half of this century.

Some of our work this year has helped to lay the foundations for achieving this vision. Of particular note has been the incorporation of forestry into wider strategies, the development of new grants and the increased use and profile of the national forest estate.

Forestry is an integral part of the Scottish Executive's Climate Change Programme and this year we helped to develop the Executive's Biomass Action Plan in support of this programme. Our Woods In and Around Towns initiative has contributed to wider health, education, urban regeneration and social inclusion agendas. We have been closely involved in producing the Scottish Rural Development Plan which will provide a framework for supporting land management across rural Scotland.

The closure of the Scottish Forestry Grants Scheme, though unwelcome news in the short term, paved the way for consultation on new forestry measures which will, in the coming year, be incorporated into Land Management Contracts. As well as grants for creating, managing and improving woodlands, plans for the new scheme include grants for activities to improve forestry business performance and competitiveness.

During the year we launched Adding Value to Farm Woodlands and Energy from Woodlands pilot grants. Additional resources also enabled us to run two Woods In and Around Towns funding rounds, which will continue to improve access provision in Scotland's urban areas.

Completion of major recreational facility upgrades has further improved the national forest estate as a destination for local people and tourists alike and events on the national forest estate draw people from far and wide. Sporting events including the Mountain Biking World Cup, wildlife-watching events such as Peregrine Watch at Huntly, and initiatives such as the Active Woods pedometer giveaway have all encouraged people to visit the national forest estate.

Sometimes, however, not all of our woods are in the best places to contribute to the needs of Scotland's people. Our solution has been both to add to the national forest estate in areas of greatest need and to forge innovative land management partnerships. We have had particular success in this respect in Glasgow, where we are working in partnership with Glasgow City Council to manage woodland at Easterhouse and Drumchapel. Here we have brought our expertise in woodland management and community engagement to support some of the most deprived communities in Scotland.

Ro-ràdh leis an Oil Calum Dòmhnallach, Cathraiche, Comataidh Nàiseanta Alba

Anns a' bhliadhna seo, mo chiad bhliadhna mar chathraiche Comataidh Nàiseanta Ùghdarras Choilltearachd na h-Alba, tha mi air a bhith an urra ri bhith a' cur air bhog Ro-innleachd Choilltearachd na h-Alba tha toirt sealladh co-phàirtichte don roinn choilltearachd air fad agus dèine ùr airson a choileanadh. 'S e sealladh fad-ùine a th' aig an ro-innleachd, a' faicinn ar stòras coilltearachd an Alba a' tighinn gu bhith na phàirt cudromach de ar cultar, eaconamaidh agus àrainneachd mar a tha sinn a' coimhead ris an dàrna leth den linn seo.

Tha cuid den obair againn sa bhliadhna seo air cuideachadh gus stèidh a chur sìos airson an t-sealladh seo a choileanadh. Gu sònraichte cudromach tha a bhith a' fighe coilltearachd a-steach do ro-innleachdan nas fharsaing, an leasachadh de thabhartasan ùra agus am barrachd cleachdadh is inbhe de dh'oighreachd a' choille nàiseanta.

Tha coilltearachd na phàirt riatanach de Phrògram Atharrachadh Aimsir Riaghaltas na h-Alba agus sa bhliadhna seo chuidich sinn ann a bhith a' leasachadh Plana Gnìomh Biomass an Riaghaltas an taic ris a' Phrògram seo. Tha an Iomairt Coilltean Ann agus Mun Cuairt Bhailtean againn air cur ri bhith a' leudachadh slàinte, foghlam, ath-chruthachadh bhailtean agus clàran-obrach com-pàirteachas sòisealta. Tha sinn air a bhith an sàs gu dlùth ann a bhith a' leasachadh Plana Leasachadh Dùthchail na h-Alba a sholaraidheas frèam-obrach airson taic agus riaghladh thar sgìrean dùthchail na h-Alba.

Ged nach deach fàilte a chur sa gheàrr-ama air a bhith a' cur às do Sgeama Thabhartasan Coilltearachd na h-Alba, dh'fhosgail e an t-slighe gus conaltradh a dhèanamh air ceuman ùra coilltearachd a bhitheas, sa bhliadhna a tha romhainn, air fhisge a-steach ann an Cùmhnantan Rianachd Fearainn. Cho math ri tabhartasan airson a bhith a' cruthachadh, a' rianachd agus a' leasachadh choilltean, tha na planaichean airson na sgeama ùire a' gabhail a-steach thabhartasan gus gnìomhan airson gnìomhachas coilltearachd a leasachadh a thaobh coileanadh agus co-fharpais.

Tron bhliadhna, chuir sinn air bhog tabhartasan pìolat A' Cur Luach ri Coilltean Tuathanais agus Cumhachd bho Choilltean. Leig cothrom air tuilleadh stòrais leinn dà chuairt maoineachaidh a ruith airson Coilltean Ann agus Mun Cuairt Bhailtean, a leanas orra a' leasachadh cothrom ruigsinneachd ann an sgìrean bailteil na h-Alba.

Tha a bhith a' cur crìoch air leasachadh ghoireasan mòra cur-seachad, air tuilleadh leasachaidh a dhèanamh air oighreachd a' choille nàiseanta mar cheann-uidhe an dà chuid do dhaoine ionadail agus do luchd-turais agus tha tachartasan air oighreachd a' choille nàiseanta a' tarraing dhaoine bho fad is farsaing. Tha tachartasan spòrs mar Cupa Baidhsagal-beinne na Cruinne, tachartasan fiadh-bheatha mar Sùil air a' Clamhan Ghobhlach ann an Srath Bhalgaidh agus tionnsgnaidhean leithid Coilltean Beothail a bhith a' toirt seachad *pedometer*, air daoine a bhrosnachadh gus tadhal air oighreachd a' choille nàiseanta.

Uaireannan, ged thà, chan eil na coilltean againn sna h-àitean as fheàrr gus freagairt air feumalachdan mhuinntir na h-Alba. B' e an dòigh san d' fhuair sinn fuasgladh air seo a bhith a' cur ri oighreachd a' choille nàiseanta sna sgìrean sa bheil an fheum as motha agus a bhith a' dèanamh cheanglaichean innleachdach a thaobh chom-pàirtichean rianachd fearainn. Tha sinn air a bhith gu sònraichte soirbheachail a thaobh seo ann an Glaschu, far a bheil sinn a' co-obrachadh le Comhairle Baile Ghlaschu gus coilltean a rianachd ann an Easterhouse agus Druim Chapall. Tha sinn air ar n-eòlas ann an rianachd choilltean agus com-pàirteachas coimhearsnachd a thoirt a-steach gus taic a thoirt do chuid de na coimhearsnachdan as bochda an Alba.

WHO WE ARE AND WHAT WE DO

Status

Forestry Commission Scotland came into being on 1 April 2003. It serves as the forestry department of the Scottish Parliament to advise on and implement forestry policies. Through Forest Enterprise Scotland, it also manages the public forest estate to deliver public benefits. The Deputy Minister for Environment and Rural Development is answerable to the Scottish Parliament for the overall policies and performance of Forestry Commission Scotland.

Forestry Commission Scotland is part of the Forestry Commission, a cross-border public body with a Chairman and Board of Commissioners. The responsibilities and powers of the Forestry Commissioners are derived mainly from the Forestry Act 1967, Plant Health Act 1967 and a number of other applicable Great Britain Acts and Statutory Instruments.

Strategy

Scottish Ministers set out their vision for forestry in Scotland in the Scottish Forestry Strategy, published in October 2006. It guides the development of Scotland's expanding forest and woodland area focusing on the key priorities over the next decade but also looking ahead to the second half of the century. The Scottish Forestry Strategy can be found on the Forestry Commission Scotland website at: www.forestry.gov.uk/sfs

Aims and Objectives

The aims and objectives of Forestry Commission Scotland flow from the Scottish Forestry Strategy and from the wider objectives of Scottish Ministers. As a predominately rural activity, forestry has a major part to play in delivering rural development, but also has an increasingly important role in helping to deliver other objectives such as urban regeneration, social and environmental justice, renewable energy and healthier lifestyles. Forestry Commission Scotland has five strategic, outcome related aims:

- Promote the expansion and sustainable management of woodlands.
- Increase the contribution of woodlands to sustainable economic growth.
- Develop the potential of woodlands to help improve the health and well-being of all sectors of society.
- Increase the contribution of woodlands to the enhancement of our natural heritage.
- Be an efficient, effective and responsive organisation.

The aims and objectives are built around the theme of sustainable forest management and the delivery of outcomes related to the economic, environmental and social outputs from forest management. There are also a number of cross-cutting outcomes to which the aims and objectives contribute. These include:

- Rural development. Forestry should make a significant contribution through provision of jobs and business development opportunities, through diversification of the rural environment and by providing opportunities for more community involvement and empowerment.
- Climate change. Through carbon sequestration by growing trees and by substitution of wood for non-renewable fuels and building materials, forestry, in conjunction with wider emissions reductions, can make a significant contribution to a reduction in CO₂ levels.
- Social justice. By expanding the range of individuals and communities that can benefit from the goods and services provided by woodlands, forestry can contribute to the Scottish Executive's social justice agenda.

The annual spending plans for Forestry Commission Scotland are in Chapter 9 of *The Scottish Budget 2004-05* which includes the expenditure plans for 2006-07. Its three-year Corporate Plan 2005-08 was published in April 2005 and contains the agreed work programme and actions for that period.

Our values – how we behave in fulfilling our objectives

- **Teamwork** – Working as teams with colleagues and others to ensure that trees, woods and forests meet the needs of people in each part of the country
- **Professionalism** - Enjoying and taking pride in our work, achieving high standards of quality, efficiency and sustainability
- **Respect** – Treating one another with consideration and trust, recognising each person’s contribution
- **Communication** – Being open, honest and straightforward with colleagues and others, as willing to listen as to tell
- **Learning** – Always learning, from outside the Forestry Commission as well as from within
- **Creativity** – Not being afraid to try new ways of doing things

KEY PERFORMANCE INDICATORS

The Key Agency Targets set by the Forestry Commission National Committee for Scotland for 2006-07 for Forest Enterprise Scotland to manage and the actual outturns were:

Aim	Key Target	Measure	Achieved	Target
1. Manage the forested estate in accordance with the principles of sustainable forest management	a. Percentage of the national forest estate independently certified as being sustainably managed. b. No major Corrective Actions	%	100% www.forestry.sgs.com/forestry_services_index_v2.htm None	100% None
2. Maintain effective planning and consultation systems	c. Percentage of the national forest estate covered by approved Forest Design Plans d. National Forest Estate coverage with Forest District Strategic Plans	% %	98% 100%	98% 100%
3. Maximise the value to the Scottish Economy of the estate's timber resource	e. Volume of wood harvested in relation to the production programme f. Area of thinning in relation to thinning plan g. Average stocking density in 5 year old restock sites targeted for future timber production	km3 (+/-5%) ha (+/-10%) minimum stems per ha	3051 km3 5876 ha (-7.7%) 2508	3050 km3 6365 ha 2500 stems per ha
4. Make best use of other forest products and estate assets	h. Maximise the opportunity for net income from development activities **	£M	£4.1 million	£5 million
5. Conserve and enhance the biological diversity and cultural heritage values of the estate	i. Percentage of scheduled sites and listed structures and managed in accordance with approved plans * i. Number of Scheduled Ancient Monuments (SAMs) with approved plans ii. Number of Sites of Special Scientific Interest (SSSIs) with approved plans iii. Listed Structure's -Agree action with Historic Scotland to maintain listed buildings in good condition. j. Area of the National Forest Estate surveyed for UKBAP priority habitats	% number number number ha	100% 321 (100%) 150 (100%) 30 Agreement in principle with Historic Scotland. Further detailed meetings will take place during 2007-08 22,422 ha	100% 329 151 29 Agree action with Historic Scotland to maintain listed buildings in good condition 15,000 ha

6. Improve the appearance of the estate	<p>k. Area of woodland managed using low impact silvicultural systems (LISS):</p> <ul style="list-style-type: none"> - Identify and map all areas where active Low Impact Silviculture management is planned - Identify and quantify the area where a first intervention has taken place - Identify and quantify the area where regeneration fellings have begun 	<p>%</p> <p>%</p>	<p>UKWAS requirement. All areas identified and mapped</p> <p>69% of LISS area identified (36,581 ha)</p> <p>26% of LISS area identified (13,789 ha)</p>	<p>Identify and map areas</p> <p>Identify and quantify area</p> <p>Identify and quantify area</p>
7. Increase the opportunities for everyone to enjoy visits to the estate	l. Progress with the establishment of a comprehensive dataset for the numbers, nature and needs of those visiting the national forest estate.	%	<p>71%</p> <p>10 Forest Districts surveyed</p> <p>Two reports published. See www.forestry.gov.uk/forestry/infd-5wcmr4</p>	60%
8. Help communities to benefit from the estate	m. Periodic independent evaluation of the change in the perception of community partnerships on their participation in partnership arrangements with FES. [Target in 2006/07 - Publish results of first study]	Number	Working in Partnership and Case Studies from the National Forest Estate published. See www.forestry.gov.uk/forestry/hcou-4u4j35	Publish results of first study
9. Maintain an efficient and effective organisation	<p>n. Performance against agreed financial targets *</p> <ul style="list-style-type: none"> i. Cash deficit (+/- 1%) ii. Operating Deficit/ (Surplus)not to exceed £4m iii. Net Capital Expenditure/ (income) (+/- 5%) <p>o. Unit cost of selected operations *</p> <ul style="list-style-type: none"> i. Total DP Unit Cost (excl Haulage) not to exceed ii. Total restocking Activity not to exceed iii. Deer Management u/cost not to exceed *** 	<p>%</p> <p>£M</p> <p>£M</p> <p>£M</p> <p>%</p> <p>£/m3</p> <p>£/ha</p> <p>£/ha</p>	<p>Not achieved (see cash deficit)</p> <p>£32.3 million</p> <p>£3.9 million</p> <p>£8.6 million</p> <p>Not achieved (see DP u/cost)</p> <p>£11.20 per m3</p> <p>£1847 per ha</p> <p>£7.28 per ha</p>	<p>100%</p> <p>£31.8 million</p> <p>£4 million</p> <p>£8.5 million</p> <p>100%</p> <p>£11.10 per m3</p> <p>£1900 per ha</p> <p>£7.82 per ha</p>

Notes on Targets:

*i, n, and o are only achieved if all sub targets are met

** 4h is based on net cost of sub-activities covering Coal & Other Mineral Development and Licenses/ Permissions

*** o iii is calculated using gross forest area

MANAGEMENT COMMENTARY

Review of the year

This year FCS has become ever more closely integrated with the other departments of the Scottish Executive, while continuing to develop and strengthen partnerships across the public, private and voluntary sectors. The following list highlights the most significant items. The Forestry Commission Scotland Annual Review, published separately, provides further detail and information on these and other achievements.

Cross cutting items

- Following some 18 months in development, the Scottish Forestry Strategy was launched by Rhona Brankin, the then Forestry Minister. The strategy is the Scottish Executive's framework for taking forestry forward through the first half of this century and beyond.
- We worked with Environment and Rural Affairs Department (ERAD) colleagues to develop the Scottish Rural Development Plan. This plan is due to be submitted to the EU during 2007 and, when approved, will lead to the launch of Land Management Contracts. Under the new Rural Development Regulations, Forestry Commission Scotland (FCS) no longer has paying Agency (PA) status. However ERAD have initially delegated to FCS all of the PA functions, including payments, and we are working together to ensure a smooth transition of the full payment function to ERAD in 2007-08 which does not impact on our customers.
- The closure of the Scottish Forestry Grants Scheme was brought forward from August to April when unprecedented demand led to many of our grants being oversubscribed. This was in part due to record levels of forestry activity taking place across Scotland but the uncertainty surrounding preparations for the new Land Management Contracts also stimulated demand. We subsequently launched a consultation on a new scheme, the results of which have informed the development of forestry measures for inclusion in Land Management Contracts.
- We worked with the Scottish Executive's 'On the Ground' programme which is encouraging closer alignment of the delivery functions of a group of related organisations in the ERAD family and beyond.
- Progress Indicators have been collated to help us monitor progress with implementing the Scottish Forestry Strategy. In some areas these indicators have yet to be established and this is something we are working on at the moment.

Climate change

The purpose of our work on climate change is to increase awareness of what forestry can do to help tackle the threats, while ensuring that Scotland's woodlands can adapt to change and can help mitigate change. Furthermore, we aim to increase the amount of carbon locked up by Scottish forestry.

- We channelled additional funding towards work to mitigate climate change impacts, including the establishment of 6,500 hectares of new woodland in Scotland. Recognising the role that forests could play in flood avoidance and alleviation we played an active role in the Flooding Issues Advisory Committee.
- Research was commissioned into the implications of climate change for Scottish forestry. To deal with one of the likely implications we strengthened our Pest Outbreak Contingency Plan.
- Using wood as a low carbon fuel has the potential to reduce Scotland's carbon emissions and we helped to develop the Scottish Executive's Biomass Action Plan which reflects this. Further efforts to reduce carbon emissions associated with the use of wood were made with the establishment of baseline 'timber miles' figures. Our aim is to reduce haulage distances for Scottish timber and to reduce the environmental impact of timber transport over time.

Timber

The purpose of our work with Scottish timber, both softwood and hardwood, is to maximise its economic potential through encouraging continued investment in processing, promoting timber use and increasing the efficiency and reducing the environmental impact of the supply chain.

- To support the sustainable transport of timber in Scotland, we offered funding to fifteen projects under the Strategic Timber Transport Fund and awarded a new TimberLink Service contract to transport timber by sea instead of road.
- After wide consultation within the forestry industry, our Timber Development Programme was announced at this year's Scottish Forestry Industries Cluster conference. A range of initiatives were supported promoting the use of Scottish timber, particularly in construction. These ranged from technical guidance on the use of green oak and research into the carbon benefits of timber in construction, through to practical demonstrations of the use of Scottish timber in an affordable housing scheme and in our new offices in Inverness.
- We promoted the growing of broadleaves for timber and around 3.1 million tonnes of timber were harvested from the national forest estate.

Business development

The purpose of our work in business development is to enhance the sustainable economic basis for forestry and develop the economic potential of Scotland and its regions, including the economies of fragile rural communities. We help to add value to the Scottish tourism industry and to improve the skills base of the forestry sector.

- Our work with the Scottish Forest Industries Cluster helped to ensure that dedicated business development support and advice was available to the forestry sector. Further support is being given to the forestry industry as we roll out a suite of e-business applications which are reducing transaction costs for us and for the industry.
- We were able to give parts of the sector further confidence when, as part of the EU North Sea Programme Bioenergy project we helped to demonstrate that woodfuel pellets can be produced on a local scale in Scotland from Scottish raw materials. Woodfuel development was given additional support when we completed our team of four Woodfuel Information Officers. Among other work, these officers are administering the Biomass Capital Grants Scheme on behalf of the Executive and have launched a wood energy information website.
- To give support to rural businesses we launched the Adding Value to Farm Woodlands pilot grant and produced guidance to help make the most of mountain biking tourism.
- The Forestry Commission has undertaken a challenging and complex public private partnership competitive process in order to find the most suitable partner to develop and expand its Forest Holidays business. In May 2006, the Forestry Commission entered into a partnership with the Camping and Caravanning Club to take over management of Forest Holidays. The Partnership will provide funding for modernisation and expansion of the business together with the necessary skills and vision to grow the business. This includes investment in the existing campsite and cabin rental businesses, as well as in two new markets – lodge rental and lodge property sales. This includes investment in the existing campsite and cabin rental businesses, as well as in two new markets – lodge rental and lodge property sales. The Partnership is a Limited Liability Partnership with the Camping and Caravanning Club holding a 51% interest and Scottish Ministers holding 49%. Day to day operations are delegated to a Management Committee which includes nominations from the Forestry Commission.

Community development

The purpose of our work in community development is to improve the quality of life and well-being of people across Scotland. This involves developing forestry's role in education and lifelong learning, enhancing engagement with communities and supporting community ownership and management on the national forest estate.

- Under the Woods In and Around Towns initiative we developed partnerships to enable us to manage land for the benefit of people in urban areas across Scotland. This year the Deputy First Minister, Nicol Stephen, visited a particularly successful project at Drumchapel in Glasgow to see first-hand a range of work being undertaken in the woodlands to make Drumchapel a healthier and more attractive place to live. To help us to develop ever better partnerships in the future, we evaluated the success of Community Forest partnerships to date.
- Under the Woods In and Around Towns initiative, 2,941 hectares of urban woodland was brought into active management this year, and 224 hectares of new urban woodland was created. Access was improved in 76 woods and 48 miles of path were created or upgraded.
- Through the Forest Education Initiative we committed to bring to 150 the number of people trained as Forest School leaders over the next two years, and organised a competition to highlight success in using woods in

education. We also worked with high schools to offer a Rural Skills Course and worked with ProjectScotland to continue the successful Galloway Forest Volunteers programme.

- In Mull, Deeside, Skye and Laggan we transferred national forest land into community ownership and released land for affordable housing under the National Forest Land Scheme.

Access and health

The purpose of our work with access and health is to make access to woodlands easier for all sectors of society. We use woodland access to help improve physical and mental health in Scotland and seek to provide a greater range of ways for people to enjoy woodlands.

- We oversaw two Woods In and Around Towns funding rounds, releasing additional resources into access improvement projects in urban areas across Scotland. We also continued to upgrade access facilities on the national forest estate, with major programmes of work on recreational routes in Argyll and Queen Elizabeth Forest Parks coming to completion. Towards the end of the year we launched *touchwood*, our contribution to Scotland's Year of Highland Culture which includes a programme of events on national forest land.
- Our Health Strategy was launched and we appointed a new Health Co-ordinator who has taken forward an exercise referral scheme making use of woodland walks in Glasgow.

Environmental quality

The purpose of our environmental quality work is to help to protect Scotland's water, soil and air resource, to contribute to Scotland's diverse and attractive landscapes and to help to manage and interpret Scotland's historic environment.

- In relation to the Water Environment and Water Services Act (2003), which transposed the Water Framework Directive into Scots law, we became a Responsible Authority and played an active role in River Basin Management Planning at both national and regional levels.
- We published a guide to creating small woodlands on farms and helped to celebrate Scotland's tree heritage with the publication of a new book.
- We underwent a review of our environmental work on the national forest estate, and published our response.

Biodiversity

The purpose of our biodiversity work is to help to halt the loss of biodiversity, and continue to reverse previous losses, by targeted action for priority species and habitats; and broader actions at a landscape/ecosystem scale. We also want to increase awareness and public enjoyment of biodiversity, and improve the knowledge of, and evidence base for, biodiversity.

- We commenced the Native Woodland Survey of Scotland, a pioneering five-year survey which will be a major contributor to improving knowledge for better decision making and will provide woodland owners and managers with information that will help them with management planning.
- Further support for native woodland conservation was provided in the form of new guidance on choosing stock for planting native woodlands and on protecting native species, while a series of training events helped local authority and national park planning staff to appreciate – and plan for – native woodlands.
- In terms of species conservation, our management of the national forest estate helped the Capercaillie to its most successful breeding year for 14 years and, together with RSPB Scotland we engaged a project officer to help conserve the Black Grouse. We worked with Scottish Natural Heritage to publish a Red Squirrel Action Plan and engaged officers to support red squirrel conservation in Highland and Ayrshire.

Future work

The most important areas of work for Forestry Commission Scotland in the coming year are:

- **Scottish Forestry Strategy:** We will act as a champion for the Scottish Forestry Strategy and seek to embed its vision and objectives into the work of the Scottish Executive and others. We will be monitoring implementation against the first one-year implementation plan and developing a subsequent three-year implementation plan, aligned with spending review periods.

- **Land Management Contracts:** We will continue to develop forestry measures to be part of Land Management Contracts, with a view to opening the scheme to new applicants during the year. We aim to administer an efficient and effective system of support for land management in Scotland, consistent with the provisions of the Scottish Rural Development Plan which will be submitted to the EU in the coming year.
- **Role of the National Forest Estate:** We continue to implement the recommendations of a 2004 review of the long term role of the national forest estate. We are developing a more detailed programme for a gradual but definite change, partly through changing management objectives in appropriate areas and partly through a programme of sales and reinvestment in new sites, woodland creation and recreation infrastructure.
- **Climate change:** We will seek to ensure that the potential contribution of the forestry sector is fully explored and reflected in policy and support measures. To do this we will be developing the evidence base, preparing a forestry sector climate change action plan and producing policy guidance on issues affecting climate change such as deforestation.

At the same time, we will be providing guidance to forest managers on the potential impact of climate change on silviculture and biodiversity. We will help to increase carbon sequestration and retention by providing measures to support woodland creation and the introduction of low intensity silvicultural systems through Land Management Contracts.

- **Timber:** We will support measures to increase use of Scottish timber. This will include improving and refining timber production forecasts to help promote predictable and stable timber supplies from both the public and private sectors. Through market analysis, research and partnership we will be encouraging more use of Scottish timber, particularly in construction.
- **Business development:** The priority over the coming year is to consolidate and develop the working partnership between our policy team, ConFor and the Scottish Enterprise network to ensure that dedicated business development support and advice continues to be provided to the sector.

Added to this, we will be exploring approaches to supporting farm business diversification, seeking ways in which woodland owners can capture direct revenue from tourism and providing guidance on the sustainable exploitation of non-timber forest products.

- **Community development:** In 2007 we will be launching the second phase of our successful Woods In and Around Towns initiative, bringing further opportunities for woodland access to Scotland's urban areas. We will also be launching the 'Forestry for People' Challenge Fund and will be seeking to engage with the schools curriculum development process to mainstream outdoor learning.

We will facilitate uptake of the National Forest Land Scheme (NFLS) and will seek amendments in forestry and crofting legislation to enable community leasing and the creation of woodland crofts on national forest land. Furthermore, we will be carrying out an accessibility review of the NFLS and improving our interface with the rapidly changing town and country planning process.

- **Access and health:** In the coming year we plan to agree actions that will mean more people will have accessible woodland near their homes and will be finding out more about the barriers that prevent people using their local woodland. We will also find out more about forestry's contribution to inclusive access and will share this through a training event. We will also be talking to disabled people about their recreation experiences with the aim of further improving what we do. We will publish a recreation framework for the national forest estate and establish a process for monitoring user satisfaction with woodland recreation provision.
- **Environmental quality:** We will continue to assist in the delivery of the aims of the Water Framework Directive and will establish baseline data and monitoring processes for forestry and water quality indicators.

We will support forest managers to assess, monitor and improve the way their proposals and operations affect the landscape and the historic environment in both rural and urban areas. A memorandum of agreement on joint Historic Scotland and Forestry Commission Scotland action to manage the historic environment on the national forest estate will be prepared and signed.

- **Biodiversity:** We will publish a Biodiversity Programme setting out our priorities for conservation of woodland biodiversity, and will establish baseline data and monitoring processes for biodiversity indicators. Our targeted actions to reverse biodiversity decline will focus on bringing native woodland - including designated sites - into

management to improve its condition, and publishing costed programmes for three key woodland species; red squirrels, black grouse and capercaillie.

- **Staff development:** This year we will be building on the results of a pilot management development programme initiated last year for our middle managers. We will also continue to focus on diversity issues throughout our business.

CORPORATE SOCIAL RESPONSIBILITY

Environmental Sustainability

All our woodlands are independently certified as sustainable through UKWAS. However, UKWAS does not address the sustainable management of our 'back office functions'. These functions include building construction, waste management, water and energy use, travel and transport.

The Commission's Greenerways project is about how we manage our sustainable development commitments in terms of our forests, staff and places of work. It aims to set up a network of local Greenerways champions to help highlight environmental issues in the workplace; establish baseline data on energy consumption, and travel and transport; and prepare a draft an environmental management system.

We started work on an Environmental Management System to be accredited under BS8555. We expect to apply for stage 2 accreditation in 2007 and then to progress in stages to the highest level. Details of the programme and the Department's environmental policy can be found at <http://www.forestry.gov.uk/forestry/INFD-6Z2JZM>

Climate Change

In November, a conference, entitled 'Forestry: A Sectoral Response to Climate Change', was hosted by the Organisation for Economic Co-operation and Development (OECD) and organised by Forest Research at the Foreign Office's Wilton Park conference centre in West Sussex. Attended by the UK Government's Climate Change Minister, Ian Pearson, and Forestry Commission Chairman, Lord Clark, the conference brought together leading forestry scientists and policymakers from around the world to discuss the role of deforestation in climate change.

Climate change is the greatest challenge facing the world today. Forests in Britain have a role to play and the work of the Forestry Commission makes a difference. Details about what the Commission is doing for climate change can be found on our website at <http://www.forestry.gov.uk/forestry/inf-d-6umkar>.

Social Sustainability

Forestry Minister Rhona Brankin has highlighted that Scotland's forests and woodlands contribute greatly to Scottish society in many ways. A major research programme to measure the social and economic contribution of forestry to Scotland is currently taking place and aims to capture evidence of all the benefits that communities are getting from activity in Scotland's forests and woodlands. The assessment will be conducted according to five key themes: livelihoods; learning and education; health and well-being; recreation, amenity and culture; and community capacity. The interim report on the study, 'A valuation of the economic and social contribution of Forestry for People in Scotland', can be found on Forestry Commission website <http://www.forestry.gov.uk/research>. The project will be completed by March 2008.

Partnerships and communities

Forestry Commission Scotland is committed to working in partnership with communities and organisations as the best way to unlock the potential of Scotland's woodlands and forests:

- we welcome and encourage the involvement of local communities and forest user groups;
- we aim to be inclusive in all that we do, engaging with all sectors of the local community;
- we promote active citizenship through involving people in local woods;
- we provide up to date information about national forests, and any special opportunities and news;
- we advertise jobs and contracts locally;
- we will be a good neighbour and a responsible land manager;
- we will work with people from forestry, and from other sectors such as education, health and tourism, to make the most of the range of benefits from woods;
- we have established regional and national Forestry Forums to advise us on the development and implementation of the Scottish Forestry Strategy; and
- we will play our part in Community Planning Partnerships.

Staff

Employment policies

We value and respect all employees, recognising that each person is different and everyone's contribution is important. We value diversity in our workforce and our employment policies seek to ensure that in all aspects of our business we do not discriminate against anyone on grounds of their age, gender, ethnic origin, disability, nationality, sexual orientation, marital status or religious beliefs. We currently monitor the black and ethnic applicants and those who self declare a disability; who we invite for interview and those who we ultimately employ.

In addition, our employment policy seeks to extend opportunities for flexible working as far as possible within the operational needs of the business, including offering a range of options for organising working time, whether it be the hours worked, the number of days attended or the location of the work.

We attach great importance to listening to the views of employees, for example by organising a bi-annual Employee Opinion Survey, and those of the recognised trade union representatives, through regular meetings of the FC Staff Council. We keep our employees informed about our business through a wide range of communications channels, including our quarterly newspaper, fortnightly bulletin and several topic-specific newsletters, such as HR News.

People Initiatives

A number of initiatives have occurred during the year. We have developed a new Human Resource (People) Strategy and Action Plan, which will guide future development of our employment policies, procedures and systems. We introduced a new Graduate Development programme, which aims to identify and develop the leaders of the future. We published a Disability Equality Scheme describing our approach to ensuring that the needs of the disabled are given due regard in all aspects of our work. We introduced a new flexible benefits scheme, enabling employees to select from a range of benefits, depending on their particular needs.

Learning and Development

Our Learning and Development service (L&D) has been re-organised to increase the effectiveness of the services provision while being more efficient with our available resources. As well as continuing to deliver core traditional products, L&D has been aiming to find the right solution to fill the skills or knowledge gap, clarifying training course ownership, reducing waiting times and further involvement in new initiatives.

Effective communication has been essential in achieving goals facilitated by the launch in February 2007 of the new "Yourself" system, which allows staff to access their own HR information. This software enables staff to search, choose and purchase training immediately on line.

Throughout the year, L&D has been aiming to be proactive in supporting the needs of the organisation. Delivery in 2006-07 included:

- Tendering and starting implementation of the management Development Programme in Scotland.
- Closer integration of learning with Operational Guidance development.
- The creation of competency framework.
- Pilot of 360 degree feedback.
- Significant growth of L&D's approved Scottish Qualifications Agency centre to deliver the Lantra Modern Apprenticeship Programme.
- New development and delivery of a number of training initiatives including: Suite of Project Management training, the geographical information system, Arc 9, the Global Positioning System, Greenerways, Ranger induction, Mountain Biking at work.
- Delivery of 3 Safety and Health Awareness days for Health and Safety Executive, further events planned for 2007-08.

Health and Safety

Policy

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

Programmes

During the year the Safety, Health & Environment team carried out Health and Safety Chemical Support Visits to Forest Districts in Scotland. Next year we plan to contribute to a project to improve the way the Forestry Commission Scotland manages vibration and noise.

Accidents

The following figures set out the incidence of reportable accidents (those causing incapacity for more than three days) for all staff in 2006-07 and the preceding years. The overall low level in accident rates is encouraging and can be attributed to the high profile afforded to health and safety in forest operations and in other parts of the Forestry Commission's undertaking.

Year	No of accidents per 100 employees
2006-07	1.09
2005-06	0.91
2004-05	1.21
2003-04	1.75

LEADERSHIP AND GOVERNANCE

Ministers

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

Ross Finnie MSP	Minister for Environment and Rural Development
Rhona Brankin MSP	Deputy Minister for Environment and Rural Development (until January 2007)
Sarah Boyack	Deputy Minister for Environment and Rural Development (from January 2007)

National Committee for Scotland

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

Dr Calum MacDonald	Chair and non-executive Commissioner for Scotland
Dr Bob McIntosh*	Director, Forestry Commission Scotland and Executive Commissioner
Richard Wakeford	Head of Environment and Rural Affairs Department, Scottish Executive
Martin Gale CBE	Non-executive Commissioner for Scotland for industry
Simon Pepper OBE	Non-executive member for the environment
Simon Rennie	Non-executive member for urban regeneration and community development (from 27 November 2006)
Dr Hugh Insley	Chief Executive, Forest Enterprise Scotland
Paul Snaith	Head of Corporate Services, Forestry Commission Scotland

*Member of the Forestry Commission Executive Board

Forestry Commission Scotland Management Board

The Forestry Commission Scotland Management Board was established as a monitoring and decision-making forum, maintaining an overview of the business systems and administrative arrangements underpinning the functioning of Forestry Commission Scotland and its relationship with stakeholders. Members during the year were:

Dr Bob McIntosh	Director, Forestry Commission Scotland
Paul Snaith	Head of Corporate Services, Forestry Commission Scotland
Simon Hodge	Head of Policy, Forestry Commission Scotland
James Ogilvie	Head of Grants & Licences, Forestry Commission Scotland
James Simpson	Head of Grants & Licences, Forestry Commission Scotland (from 16 October 2006)
Dr Hugh Insley	Chief Executive, Forest Enterprise Scotland

Forest Enterprise Scotland Management Board

The Agency Management Board gives strategic direction and leadership to the forest districts within Scotland. The membership for 2006-07 was:

Dr Hugh Insley	Chief Executive (Chair)
Les Bryson	Head of Operations
Alan Stevenson	Communities, Recreation and Tourism Manager
Laurie Tyson	Head of Estates
Moiria Baptie	Environment Manager
Alan Duncan	Finance Manager
Stephanie Atwell	Human Resources Manager
James Simpson	Planning Manager (until 15 October 2006)
Nicol Sinclair	Planning Manager (from 24 January 2007)
Craig Heaney	Director, Forestry Business Units (from 17 May 2006 until 2 November 2006)
Michael Ansell	Director, Forestry Business Units (from 4 December 2006)

Forestry Commissioners and Permanent Head of the Department

The Board of Commissioners gives strategic direction to the Forestry Commission and takes decisions on not-devolved or co-ordinated functions. It has a part time non-executive Chairman, Rt Hon Lord Clark of Windermere, and the Director General, Tim Rollinson, as Permanent Head of the Department, acts as Deputy Chairman. Details of Commissioners who served during the year are available in the Great Britain/England Annual Report and Accounts.

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

Audit and Risk Committee

Following a review of the effectiveness of existing Audit Committee arrangements across the Forestry Commission, a revised structure, reflecting the needs of each country, was put in place during 2006-07. In Scotland, the National Committee has established an Audit and Risk Committee (ARC) as a sub-committee to support them in their responsibilities for the effective management of risk, control and governance. Through its work the ARC provides independent assurance to the National Committee on these key activities which support the achievement of country objectives. The ARC operates in accordance with the principles contained in the Treasury's Audit Committee Handbook. The members of the ARC for Scotland are:

Non-executive members:

Martin Gale (Chair)

Simon Pepper

Simon Rennie

Secretary:

Bruce Inglis

Additionally the following will also normally attend meetings:

Accountable Officer, Forestry Commission Scotland;

Agency Accountable Officer, Forest Enterprise Scotland;

Head of Corporate Services (Scotland's Finance Director);

Head of Internal Audit or a representative; and
representatives of Audit Scotland.

The Director General as Principal Accounting Officer of the Forestry Commission and Director Finance, Forestry Commission may attend any meeting.

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

Corporate Governance

The Statement on Internal Control (SIC) provides a summary of the way in which Forestry Scotland manages its Governance and Internal Control by applying the principles of the Treasury's Code of Good Practice for Corporate Governance in the context of its own circumstances.

Risk Management Policy

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

- Integrate risk management into the culture of Forestry Commission Scotland
- Eliminate or reduce risks to an acceptable level
- Anticipate and respond to changing social, environmental and legislative requirements
- Prevent injury and damage and reduce the cost of risk
- Raise awareness of the need for risk management

By adopting its Risk Management Policy, Forestry Commission Scotland recognises risk management as a key function in helping to ensure it achieves its aims and objectives.

Principal risks, uncertainties and opportunities

Forestry Commission Scotland measures its risks against the following criteria:

Economic – this relates to the management of the estate to benefit the wider economy and includes opportunities or possible adverse effects relating to the maximisation of the value of the wood resource and maintenance of high and stable levels of economic growth and employment

Reputational - this relates to the level of criticism that might be levelled at our Minister or Forestry Commission Scotland and the effect that this might have on our relationships with other organisations and with the public.

Environmental – this relates to the implications for the targets of maintaining and enhancing the bio-diversity, cultural value and landscape character of our estate, making a positive contribution to the environment, effective protection of the environment and prudent use of natural resources.

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

The principal risks identified during the year and appropriate action taken to mitigate were:

- a) Potential failure to meet Scottish Climate Change Programme targets through lack of woodland creation mitigated by maximising approval of woodland creation grants and providing support for wood energy supply chain development
- b) Potential failure to meet forestry expansion aspirations through insufficient woodland creation, low uptake of grant schemes, poor land availability or uncertainty in agricultural and land use sectors mitigated by targeting woodland creation to maximise public benefits.
- c) Potential of significant reduction in plantation areas through major natural disaster caused by storm, fire, disease or pest outbreak mitigated by maintaining FC contingency planning capacity and process, raising awareness through seminars and undertaking appropriate research on control measures.



RESOURCE ACCOUNTS 2006-07

FINANCES

Basis of Accounts

The Forestry Commission Scotland Resource Accounts are prepared in accordance with the Accounts Direction issued by Scottish Ministers under section 45(1) of the Forestry Act 1967. The direction is produced as an appendix to the accounts.

Departmental Accounting Boundary

These accounts incorporate the core-department only. Forest Enterprise Scotland, an executive agency of Forestry Commission Scotland since 1 April 2003, is a public corporation for national accounting. Accordingly, it is outside the departmental boundary for resource accounting and produces its own accounts with its net funding reflected in these accounts.

Financial review

Forestry Commission Scotland receives funding from the Scottish Executive, as shown in the 2006-07 Spring Budget Revision to the Budget (Scotland) Act, to deliver its agreed financial, strategic and operational aims and objectives. The main programme costs cover:

- Support for forestry and rural economy including grants paid to private woodland owners;
- Net funding of Forest Enterprise Scotland to allow it to manage the Scottish Forest estate in accordance with the economic, environmental and social objectives set by Forestry Commission Scotland; and
- Cost of capital.

Whilst Forestry Commission Scotland is not exposed to the same degree of risk and uncertainty associated with the private sector there are a number of factors which can significantly impact on the level of required funding, including:

- Private sector response to claiming grants which can be influenced by market conditions, tax concessions and grant structure;
- Fluctuations in the timber market can impact on Forest Enterprise Scotland's net funding with around 50% of gross expenditure of £74 million met from sales of timber;
- With net assets of just over £571 million, revaluation of the estate significantly influences the cost of capital charge.

Programme expenditure recorded an increase of £15.8 million compared to last year for the following reasons:

- confidence amongst growers increased with grant payments reaching a record level of £29.6million, a near £10 million increase from last year.
- development expenditure in support of the forestry sector increased by £2 million pounds.
- increased cost of capital of £2.5 million incurred as a consequence of the increase in the valuation of the forest estate and other land;
- additional resource funding to Forest Enterprise Scotland of £1.4 million. Forest Enterprise Scotland received net resource funding from Forestry Commission Scotland of £29.3 million to manage the forest estate, to deliver increased programmes of work in providing a wide range of public benefits.

Net assets increased from £487 million to £571 million, primarily due to the increased valuation of the forest estate and other land of £81 million but also by new acquisitions of land and forest estate of £4 million. We disposed of around £1 million of forest estate, during the year. Cash balance of £1.4 million represented the cash underspend for 2006-07 and will be repaid to the Scottish Executive during 2007-08. Net assets were represented by a general fund

of £377 million and a revaluation reserve of £194 million on the forest estate and land which will only be realised on the disposal of land.

Significant variances against estimate

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

£m	Estimate	Outturn	Difference
Total resource	92.8	89.0	3.8
Net cash requirement	70.4	69.0	1.4

The total resource net underspend principally arose from savings in cost of capital charges of £0.7 million, an increase in EU co-financing receipts for PW grants of £0.7 million and reduced capital spending, mainly on land acquisitions, of £2.4 million

Other Disclosures

Research and Development

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

Pensions

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

Supplier Payment Policy

The Forestry Commission complies with the Government's Better Payment Practice Code. Unless otherwise stated in the contract, we aim to pay within 30 days from the receipt of goods and services or the presentation of a valid invoice, whichever is the later. A sample analysis for 2006-07 indicates that 99.5% of invoices were paid within the due date. Arrangements for handling complaints on payment performance are notified to suppliers on contracts.

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

Auditors

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

Disclosure of audit information to the auditors

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

R McIntosh
Non-Statutory Accountable Officer
5 July 2007

REMUNERATION REPORT

Remuneration policy

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

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

- Guidelines circulated by the Cabinet Office implementing Government decisions on the recommendations of the Senior Salaries Review Body (SSRB). The SSRB is responsible for monitoring the operation of the Senior Civil Service pay system and for making recommendations to the Government on the shape of the system, including the salary values for the minimum and maximum of each of the senior pay bands, the range of percentage increases to base salary and range of bonuses. Further information on the work of the SSRB can be found at www.ome.uk.com.
- Reporting Officers recommendations on the relative performance of each of their senior staff, whether a bonus should be paid and if so whether low or high. The Senior Pay Committee consider the recommendations, determine the allocation of senior staff to tranches, and decide the percentage increase to salary and any bonus to be awarded.

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

Employment contracts

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

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

Non-executives are generally appointed for a fixed term of three years with a maximum notice period of 1 month. Contracts are renewable for further fixed terms if both parties agree. In the event of early termination, for whatever reason, there is no provision for compensation.

Details of the letters of appointment for the non-executives who served during the year are:

	Date of current contract/letter	Unexpired term (months*)
Dr Calum MacDonald	1/4/2006	24
Martin Gale	1/5/2006	25
Richard Wakeford	n/a	n/a
Simon Pepper	27/6/2006	27
Simon Rennie	27/11/2006	32

Salary and pension entitlements

The salary and pension entitlements of the civil servants who are members of the National Committee and Management Board were:

	2006-07		2005-06	
	Salary	Benefits in kind	Salary	Benefits in kind
	to nearest		to nearest	
	£000	£100	£000	£100
Dr Bob McIntosh	100-105	-	100-105	-
James Ogilvie	55-60	1,000	55-60	2,000
Paul Snaith	50-55	-	50-55	300
Simon Hodge	70-75	-	70-75	-
James Simpson	25-30 ¹	100	-	-

The salary and pension entitlements of Hugh Insley, a member of the National Committee for Scotland, are borne and disclosed in the Forest Enterprise Scotland Annual Report and Accounts 2006-07 as he is the Chief Executive of Forest Enterprise Scotland.

Salary

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

Benefits in kind

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

Transactions with committee and board members

An interest free loan in the form of an advance of salary for house purchase may be given to employees. The following members of the National Committee and Management Board had such outstanding loans during the year:

	Balance at 1 April 2006 £000	Balance at 31 March 2007 £000	Maximum balance during the year £000
James Ogilvie	28	27	28
Paul Snaith	4	3	4

Pension benefits

	Accrued pension at age 60 at 31 March 2007 and related lump sum £000	Real increase in pension and related lump sum at age 60 £000	CETV at 31 March 2007 £000	CETV at 31 March 2006 £000	Real increase in CETV £000	Employer contribution to partnership pension account Nearest £100
Bob McIntosh	40-45 plus LS of 120-125	0-2.5 plus LS of 0-2.5	794	753	12	-
James Ogilvie	20-25 plus LS of 50-55	0-2.5 plus LS of 0-(2.5)	358	337	11	-
Paul Snaith	25-30 plus LS of 0-5	0-2.5 plus LS of 0-2.5	467	436	16	-
Simon Hodge	15-20 plus LS of 45-50	0-2.5 plus LS of 0-2.5	214	202	11	-
James Simpson	10-15 plus LS of 20-25	0-2.5 plus LS of 0-2.5	139	124	14	-

¹ Figure quoted is for period 16 October 2006 to 31 March 2007. Full year equivalent is 40-45.

Civil Service Pensions

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

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

The partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3% and 12.5% (depending on the age of the member) into a stakeholder pension product chosen by the employee. The employee does not have to contribute but where they do make contributions, the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.8% of pensionable salary to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement).

The accrued pension quoted is the pension the member is entitled to receive when they reach 60, or immediately on ceasing to be an active member of the scheme if they are already 60.

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

Cash Equivalent Transfer Values

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

Real increase in CETV

This reflects the increase in CETV effectively funded by the employer. It does not include the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

Remuneration of Non-Executives

The non-executive Forestry Commissioners and members of the National Committee for Scotland received the following remuneration for their services during the year ended 31 March 2007:

Simon Pepper

£000
5

The remuneration of Dr Calum MacDonald and Martin Gale, non-executive Forestry Commissioners and members of the National Committee for Scotland, are borne and disclosed in the Forestry Commission Great Britain/England Annual Report and Accounts 2006-07. Richard Wakeford, a member of the National Committee for Scotland, is employed by the Scottish Executive as Head of Environment and Rural Affairs and does not receive any additional remuneration from Forestry Commission Scotland. Simon Rennie, a non-executive member of the National Committee for Scotland, is a Director of the Central Scotland Forest Trust which received payments from Forestry Commission Scotland for his service on the National Committee and is disclosed as a related party transaction.

R McIntosh
Non-Statutory Accountable Officer
5 July 2007

STATEMENT OF ACCOUNTABLE OFFICER'S RESPONSIBILITIES

Under the Forestry Act 1967, Forestry Commission Scotland is required to prepare, for each financial year, resource accounts detailing the resources acquired, held or disposed of during the year and the use of resources by the department during the year. The 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.

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

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

Under section 15 of the Public Finance and Accountability (Scotland) Act 2000, the Principal Accountable Officer has designated the Director General, Head of Department, as Accountable Officer of the Forestry Commission in respect of its activities in Scotland. He is personally answerable to the Scottish Parliament for the propriety and regularity of the Forestry Commission's activities in Scotland and for the economical, efficient and effective use of all associated resources.

In addition, the Head of Department has designated Director, Forestry Commission Scotland as an additional Accountable Officer which includes delegation of responsibility for signing the accounts for the Scottish Parliament in respect of the Forestry Commission's activities in Scotland, for the propriety and regularity of the public finances, for keeping proper records and for safeguarding Forestry Commission Scotland's assets. This delegation does not detract from the Head of Department's overall responsibility as Accountable Officer for the department's accounts. The relationship between the Accountable Officer and Director, Forestry Commission Scotland, together with their respective responsibilities, is set out in writing.

STATEMENT ON INTERNAL CONTROL

1. Scope of Responsibility

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

Forestry is a devolved matter although certain activities such as international affairs, plant health and forest research remain reserved by Westminster. The Scottish Ministers decide the policy and financial framework within which the Forestry Commission (including Forest Enterprise Agency), operates in Scotland and they are accountable to the Scottish Parliament for all matters concerning the Forestry Commission Scotland.

The Forestry Commissioners are statutorily responsible for the stewardship of the estate placed at their disposal by Ministers. The Forestry Commissioners have delegated to the statutory Scottish National Committee the normal exercise of their powers and duties in connection with the estate in Scotland. A non-executive Forestry Commissioner chairs the National Committee and its members include a further non-executive Commissioner, the Agency Chief Executive and a representative of the Scottish Executive.

The Director General is the Deputy Chairman of the Forestry Commissioners and the senior official in the Forestry Commission. In addition to his role as a Commissioner, he is the Principal Accounting Officer, formally responsible to Parliament for the financial affairs of the Forestry Commission.

The Director Scotland is the executive Forestry Commissioner responsible to the Minister and to the Director General for the work of the Forestry Commission in Scotland. The Director Scotland is appointed Accountable Officer and is a member of the National Committee for Scotland. The Chief Executive of the Forest Enterprise Agency is responsible, normally through the Director Scotland, to the National Committee for the management of the Agency. The Chief Executive is a member of the National Committee and is designated as Agency Accountable Officer, responsible for the Agency's accounts and financial procedures and for the proper, effective and efficient use of resources provided to the Agency within the terms of the Framework Document and in pursuit of the agreed objectives and targets.

The exact responsibilities of the Director Scotland are detailed in the letter of appointment. The Director General, Director Scotland and the Agency Chief Executive are liable to be called to appear before the relevant Parliamentary Committee to answer for their financial responsibilities. It will be for Ministers to decide who should represent them at other Parliamentary Committee hearings.

The Scottish Public Finance Manual (SPFM) is issued by Scottish Ministers to provide guidance to the Scottish Executive and other relevant bodies on the proper handling of public funds. It is mainly designed to ensure compliance with statutory and parliamentary requirements, promote value for money and high standards of propriety, and secure effective accountability and good systems of internal control.

2. Purpose of the System of Internal Control

The system of internal control is designed to manage risk rather than eliminate the risk of failure to achieve the Forestry Commission Scotland's 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 Scotland's policies, aims and objectives; to evaluate the nature and extent of those risks and to manage them efficiently, effectively and economically. The process within the Forestry Commission Scotland accords with the SPFM and has been in place for the year ended 31 March 2007 and up to the date of approval of the annual report and accounts, and accords with guidance from the Scottish Ministers.

3. Risk and Control Framework

All bodies subject to the requirements of the SPFM must operate a risk management strategy in accordance with relevant guidance issued by the Scottish Ministers. The general principles for a successful risk management strategy are set out in the SPFM.

Risk management is the responsibility of every member of staff in the Forestry Commission Scotland. Everyone has a role to play in managing the risks within their own area of authority. Risk awareness and responsibility lies in

parallel with the structure of the Forestry Commission Scotland's objectives. At every level of objective there is equivalent delegation of responsibility of associated risk.

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

- Policies set by the National Committee for Scotland and the Scotland Management Board. Written procedures support the policies where appropriate;
- Comprehensive regular reporting to the National Committee and Management Board designed to monitor key risks and their controls. Decisions to rectify problems are made at their regular meetings; and
- Planning and budgeting systems used to set objectives, agree action plans and allocate resources. Progress towards meeting planned objectives is monitored regularly.

More generally, the Forestry Commission Scotland is committed to a process of continuous development and improvement: developing systems in response to any relevant reviews and developments in best practice in this area. In particular, in the period covering the year to 31 March 2007 and up to the signing of the accounts Forestry Commission Scotland has:

- worked with a private sector risk management expert to develop a series of workshops, the first of which was held in June 2006. The purpose of these is to share experiences of handling risk at country and agency level, to review progress on embedding risk management and to ensure common standards when assessing risks (impact and likelihood);
- further embedded the Risk management process by organising a meeting of representative senior and line managers from FCS and FES in December 2006 to review the FCS risk register. This meeting was facilitated by our private sector risk management consultant and considered current content, scoring, adequacy of controls and identified omissions. The resultant fully updated FCS Risk Register was considered and approved by the FCSMB during February 2007.
- participated in the Commission wide, Risk Management Group (RMG), which met on 19 May 2006, 23 August 2006 and 30 November 2006 to consider and ensure continued development of risk management and the sharing of best practice across the FC.
- supported the update of the commercial risk management software package to ensure alignment with internal audit planning arrangements.
- participated in discussions within the RMG to consider country priorities for the preparation of Business Continuity Plans (BCPs) which meet their needs and which clearly link to business driven risk management. These discussions identified that across GB the three most business critical must deliver services/activities, are timber production, access particularly for recreation and grant payments. Work will be undertaken in 2007-08 to produce BCPs for each of these areas.

During 2006-07 the Board of Commissioners reviewed the country arrangements and recommended the setting up of separate Audit and Risk Committees (ARC) in each of the three countries. Interim arrangements were put in place for Scotland using members of the existing Internal Control Committee (ICC). This interim Committee met once in June 2006. The ARC in its new form was set up and approved by the National Committee in October 2006 and met in March 2007. In both cases they considered a range of reports from management, and from internal and external audit.

The new Audit and Risk Committee (ARC) membership consists of 3 Non-Executives, the Director, Agency Chief Executive and Director Corporate Services for Scotland, the Head of Internal Audit and Audit Scotland representatives. It deals with higher level issues concerning control and governance and supports the National Committee, Country Director and the Agency Chief Executive. It is provided with detailed advice on the work of Internal Audit in particular, and control in general and replaces the local Internal Control Committee (ICC).

The ARC advises the National Committee and AOs on:

- the strategic processes for risk, control and governance in FC Scotland and FE Scotland;
- the Statement on Internal Control in FC Scotland and FE Scotland;
- the accounting policies, the accounts and the annual report of FC Scotland and FE Scotland, including the process for review of the accounts prior to submission for audit, levels of error identified, and management's letter(s) of representation to the external auditors;
- the planned activity and results of both internal and external audit;
- the adequacy of management response to issues identified by audit activity, including internal audit reports and external audit's management letter;
- assurances relating to the corporate governance requirements for Forestry Commission Scotland.

The ARC will also periodically review its own effectiveness and report the results of that review to the National Committee.

4. Review of Effectiveness

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

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

The Head of Internal Audit has prepared an annual report and assurance statement to me as Director Scotland and Accountable Officer. The report includes an overall assessment of the adequacy and effectiveness of risk management, control and governance within Forestry Commission and Forest Enterprise Scotland. The Director General as Principal Accounting Officer has received a similar report and assurance statement including any comments specific to the Great Britain core responsibilities. The overall opinion is that internal control within the Forestry Commission and Forest Enterprise Scotland continues to provide substantial assurance that material risks to the achievement of objectives are adequately managed.

5. Significant Internal Control Problems

None

R McIntosh
Non-Statutory Accountable Officer
5 July 2007

Independent auditor's report to Forestry Commission Scotland, the Auditor General for Scotland and the Scottish Parliament

I have audited the financial statements of Forestry Commission Scotland for the year ended 31 March 2007 under the Forestry Act 1967. These comprise the Statement of Parliamentary Supply, Operating Cost Statement, Balance Sheet, the Cash Flow Statement and Statement of Recognised Gains and Losses, the Statement of Operating Costs by Departmental Aim and Objectives and the related notes. These financial statements have been prepared under the accounting policies set out within them.

This report is made solely to the parties to whom it is addressed in accordance with the Public Finance and Accountability (Scotland) Act 2000 and for no other purpose. In accordance with paragraph 123 of the Code of Audit Practice approved by the Auditor General for Scotland, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Respective responsibilities of Forestry Commission Scotland, Accountable Officer and Auditor

The Forestry Commission Scotland and Accountable Officer are responsible for preparing the Annual Report and the financial statements in accordance with the Forestry Act 1967 and directions made thereunder by the Scottish Ministers. The Accountable Officer is also responsible for ensuring the regularity of expenditure and receipts. These responsibilities are set out in the Statement of Forestry Commission Scotland's and Accountable Officer's Responsibilities.

My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and with International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Auditor General for Scotland.

I report my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Forestry Act 1967 and directions made thereunder by the Scottish Ministers. I also report 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; and
- 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 Annual Report and Finances summary is not consistent with the financial statements, if the Forestry Commission Scotland has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by relevant authorities regarding remuneration and other transactions is not disclosed.

I review whether the Statement on Internal Control reflects the Forestry Commission Scotland's compliance with Scottish Executive's guidance. I report if, in my opinion, it does not comply with the guidance or if it is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered, whether the statement covers all risks and controls. Neither am I required to form an opinion on the effectiveness of Forestry Commission Scotland's corporate governance procedures or its risk and control procedures.

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

Basis of audit opinion

I conducted my audit in accordance with the Public Finance and Accountability (Scotland) Act 2000 and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board as required by the Code of Audit Practice approved by the Auditor General for Scotland. An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of expenditure and receipts included in the financial statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant

estimates and judgements made by the Forestry Commission Scotland and Accountable Officer in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Forestry Commission Scotland's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements and the part of the Remuneration Report to be audited are free from material misstatement, whether caused by fraud or error, and that in all material respects the expenditure and 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 and the part of the Remuneration Report to be audited.

Opinion

Financial statements

In my opinion

- the financial statements give a true and fair view, in accordance with Forestry Act 1967 and directions made thereunder by the Scottish Ministers, of the state of affairs of the Forestry Commission Scotland as at 31 March 2007 and of the net resource outturn, net cash requirement, net operating cost, recognised gains and losses, cash flows for the year then ended and resources applied to objectives; and
- the financial statements and the part of the Remuneration Report to be audited 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; and
- 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.

Lorna Meahan CA
Audit Scotland
7th Floor, Plaza Tower
East Kilbride
G74 1LW

11 July 2007

Operating Cost Statement

for the year ended 31 March 2007

			2006-07 £000	2005-06 £000
	Note	Staff Costs	Other Costs	Income
Administration Costs:				
Staff Costs	3	4,628		4,202
Other Administration costs	4		3,687	4,167
Operating Income	6		(98)	(219)
Programme Costs:				
Programme costs	5		81,891	66,043
EU income	6		(8,184)	(6,379)
Other income	6		(1,526)	(1,641)
Totals		4,628	85,578	(9,808)
Net operating Cost	2		80,398	66,173

All income and expenditure are derived from continuing operations.

Statement of Recognised Gains and Losses

for the year ended 31 March 2007

	Note	2006-07	2005-06
Net gain on revaluation of tangible fixed assets	15	80,687	59,916
Recognised gains and losses for the financial year		80,687	59,916

The notes on pages 37 to 50 form part of these accounts.

Balance Sheet

as at 31 March 2007

	Note	2006-07 £000	2005-06 £000
Fixed assets:			
Tangible assets	8	570,485	486,642
Intangible assets	9	188	114
Debtors falling due after more than one year	10	32	49
Current assets:			
Debtors	10	1,370	816
Cash at bank and in hand	11	<u>1,366</u>	<u>276</u>
		2,736	1,092
Creditors (amounts falling due within one year)	12	(1,829)	(1,036)
Net current assets		<u>907</u>	<u>56</u>
Total assets less current liabilities		571,612	486,861
Creditors (amounts falling due after more than one year)	12	(332)	(370)
Provisions for liabilities and charges	13	(47)	(93)
		<u>571,233</u>	<u>486,398</u>
Taxpayers' equity:			
General fund	14	377,157	373,009
Revaluation reserve	15	194,076	113,389
		<u>571,233</u>	<u>486,398</u>

R McIntosh
Non-Statutory Accountable Officer
5 July 2007

The notes on pages 37 to 50 form part of these accounts

Cash Flow Statement

for the year ended 31 March 2007

		2006-07	2005-06
		£000	£000
	Note		
Net cash outflow from operating activities	16(a)	(66,465)	(50,650)
Capital expenditure and financial investment	16(b)	(2,602)	786
Payments of amount due to Scottish Consolidated Fund		(276)	(1,600)
Financing	16(d)	70,433	50,140
Increase/(decrease) in cash in the period	16(e)	<u>1,090</u>	<u>(1,324)</u>

The notes on pages 37 to 50 form part of these accounts

Statement of Operating Costs by Departmental Aim and Objectives

for the year ended 31 March 2007

			2006-07 £000 Net			2005-06 £000 Net
	Gross	Income		Gross	Income	
Objectives						
Maximise the value to the Scottish economy of the wood resource becoming available over the next 20 years	4,397	(39)	4,358	2,778	(33)	2,745
Create a diverse forest resource of high quality that will contribute to the economic needs of Scotland throughout the 21 st century and beyond	38,291	(2,942)	35,349	36,512	(2,472)	34,040
Make sure that Scotland's trees, woods and forests make a positive contribution to the environment	25,627	(4,149)	21,478	18,772	(3,485)	15,287
Create opportunities for more people to enjoy trees, woods and forests in Scotland	15,551	(1,785)	13,766	11,372	(1,499)	9,873
Help communities benefit from woods and forests	6,340	(893)	5,447	4,978	(750)	4,228
Net operating costs	90,206	(9,808)	80,398	74,412	(8,239)	66,173

See note 17 for explanation of apportionment across objectives.

The notes on pages 37 to 50 form part of these accounts

Notes to Forestry Commission Scotland resource accounts

1. Statement of accounting policies

These financial statements have been prepared in accordance with the 2006-07 *Government Financial Reporting Manual (FReM)* issued by HM Treasury. The accounting policies contained in the *FReM* follow UK generally accepted accounting practice for companies (UK GAAP) to the extent that it is meaningful and appropriate to the public sector.

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

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

1.1 Accounting convention

These accounts have been prepared under the historical cost convention modified to account for the revaluation of fixed assets.

1.2 Administrative and programme expenditure

The operating cost statement is analysed between administration and programme income and expenditure. The classification of expenditure and income as administration or as programme follows the definition of administration costs set out in the *Scottish Public Finance Manual* issued by the Scottish Executive. Administration costs reflect the costs of running Forestry Commission Scotland, together with associated operating income, and programme costs include payments of grants.

1.3 Capital charges

Charges, reflecting the cost of capital utilised by the core department in Scotland have been included under both administration and programme costs in the operating cost statement. The charge is calculated at the Government's standard rate of 3.5% in real terms on the average carrying amount of all assets less liabilities, except for cash balances held by the Office of the Paymaster General and amounts due to be surrendered to the Scottish Consolidated Fund.

1.4 Pensions

Past and present employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS). The defined benefit schemes are unfunded and are non-contributory except in respect of dependants' benefits. Forestry Commission Scotland recognises the expected cost of these elements on a systematic and rational basis over the period during which it benefits from employees' services by payment to the PCSPS of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the PCSPS. In respect of the defined contribution schemes, Forestry Commission Scotland recognises the contributions payable for the year.

1.5 Contingent liabilities

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

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

1.6 Tangible fixed assets

Legal ownership of all land is vested in Scottish Ministers 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.

Tangible fixed assets are revalued annually as at 31 March. From 1 April 2008, future revaluations shall take place on 1 April.

Forest Estate

A full valuation is undertaken at five yearly intervals by a panel comprising the Forestry Commission Scotland's country land agent and two external valuers. In accordance with the RICS Appraisal and Valuation Standards (the "Red Book"), the valuation is based on the assets' existing use. This is because the forest estate is regarded as a non-specialised asset that is occupied by its owners for the purposes of their business. The next full valuation shall take place on 1 April 2008. From that date, accounts shall be prepared under International Accounting Standards and the Forest Estate shall be valued under the Existing Use and Fair Value bases as appropriate. Indices provided by the valuation panels are used to restate values in the intervening years. Use of the indices shall continue after 1 April 2008.

Non-Forest Land

Professionally qualified staff employed by Forestry Commission Scotland undertake a full revaluation of non-forest land following the principles set out in the RICS Red Book. They follow the principles set out in the RICS Red Book and value on the basis of Open Market Value, Existing Use Value, Depreciated Replacement Cost or Discounted Cash Flow as appropriate under the RICS guidance. Unequipped agricultural land indices provided by the District Valuer are used to restate values between full valuations. The next full valuation shall take place on 1 April 2008.

Expenditure on infrastructure

To maximise the environmental, social and economic benefits of the Forest Estate and Other Land, the Commission improves and develops access and services by adding to the infrastructure on its sites. Infrastructure includes new roads, bridges, culverts etc. Costs in respect of infrastructure works are expensed as they occur. The Commission takes the view that the professional valuations of the Forest Estate and Other Land properly recognise the contribution that infrastructure items make to land values. It also considers that the annual revaluation by indexation reflects improvements made through new infrastructure.

Surplus properties

Fixed assets are reviewed regularly to ensure they continue to contribute positively to policy and business objectives. Assets that no longer provide the required level of contribution are considered for disposal by senior management. Decisions to sell such properties take into account a number of factors including the social and environmental effects as well as marketability. Surplus properties are retained in their fixed asset category and continue to be valued on the appropriate basis as set out in the preceding paragraphs. However, values may be materially affected by development factors such as the award of planning permissions. Where this occurs, assets are revalued to an Open Market Value based on advice provided by the selling agents and taking account of the circumstances of the sales. Revaluation takes place in the quarter following the development event.

Information technology

Information technology values are restated to current value each year using indices provided by the Office for National Statistics. The normal threshold for capitalisation of assets is £1,500.

Assets under construction

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

1.7 Depreciation

The forest estate and land held under freehold is not depreciated.

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

Land held under a finance lease	-	unexpired term of the lease
Lease premium	-	unexpired term of the lease
IT	-	4 to 20 years

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

1.8 Intangible assets

Intangible assets are capitalised at cost and are amortised on a straight line basis over their estimated useful lives up to a maximum of 20 years. The carrying value of intangible assets is reviewed for impairment at the end of the first full year following acquisition and in other periods if events or changes in circumstances indicate the carrying value may not be recoverable.

1.9 Operating Income

Operating income represents income receivable from fees and charges for services provided.

1.10 Leases

Where substantially all the risks and rewards of ownership of a leased asset are borne by Forestry Commission Scotland (a Finance Lease), the right to use the asset is initially recorded as a tangible fixed asset. A corresponding debt is recorded to the lessor represented by the minimum lease payments over the unexpired term of the lease discounted by the Treasury discount rate of 3.5%. Costs in respect of operating leases (any lease other than a Finance Lease) are charged on a straight-line basis over the lease term.

Assets held under Finance Leases are depreciated over the unexpired term of the lease. The value of each underlying asset is revalued annually as though ownership of the asset was vested in the Forestry Commissioners. The policies and procedures for carrying out the revaluations are those set out in 1.6 above.

1.11 Grants payable

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

1.12 European Union (EU) funding

The Forestry Commission acts as an agent of the EU for third party grants paid from Objective 1 and Woodland Grant Scheme payments made under the national European Agricultural Guarantee and Guidance Fund. Once grants become recognised, contributions from the EU are claimed. If grants are subsequently recovered because of failure to fulfil the conditions of the Woodland Grant Scheme, the amount of co-financing may be repayable to the EU.

1.13 Provisions

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

1.14 Value Added Tax (VAT)

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

2. Reconciliation of resources to cash requirement

	Note	Estimate £000	Outturn £000	Net total outturn compared with Estimate: saving/(excess) £000
Total operating resources		81,486	80,398	1,088
Capital:				
• Acquisition of fixed assets	8/9*	13,700	10,805	2,895
• Proceeds of fixed asset disposals	8/9*	(2,400)	(2,162)	(238)
• Investments		-	(81)	81
Total operating and capital resources		92,786	88,960	3,826
Non-operating cost A in A:				
• Proceeds of fixed asset disposals				
Accruals adjustments:				
• Non-cash items	4/5/6	(19,353)	(17,875)	(1,478)
• Changes in working capital other than cash	16(a)	-	834	(834)
• Changes in creditors falling due after more than one year	16(b)	-	38	(38)
• Use of provision	13	-	38	(38)
Other adjustments:				
• Adjustment of FE net deficit to financing	5	(3,000)	(2,924)	(76)
• Timing between accrual and cash VAT	14	-	(14)	14
• Non cash inter country transfers	14	-	10	(10)
Net cash requirement		70,433	69,067	1,366

* Note – capital acquisitions and disposals includes FES which are shown in notes 6 and 15b respectively of FES accounts.

Explanation of variances can be found in the financial review on page 19.

3. Staff numbers and related costs

Staff costs comprise:

	2006-07 £000			2005-06 £000
	Total	Permanently employed staff	Others	Total
Wages and salaries	3,636	3,636	-	3,315
Social security costs	292	292	-	267
Other pension costs	700	700	-	614
Inward secondments	-	-	-	6
Total net costs	4,628	4,628	-	4,202

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

For 2006-07, employers' contributions of £698,000 were payable to the PCSPS (2005-06 £614,000) at one of four rates in the range 17.1% to 25.5% of pensionable pay, based on salary bands (the rates in 2005-06 were between 16.2% and 24.6%). The scheme's Actuary reviews employer contributions every four years following a full scheme valuation. From 2007-08, the salary bands will be revised and the rates will remain the same. The contribution rates are set to meet the cost of the benefits accruing during 2006-07 to be paid when the member retires, and not the benefits paid during this period to existing pensioners.

Employees can opt to open a **partnership** pension account, a stakeholder pension with an employer contribution. Employers' contributions of £2,000 were paid to one or more of a panel of three appointed **stakeholder** pension providers. Employer contributions are age-related and range from 3% to 12.5% of pensionable pay. Employers also match employee contributions up to 3% of pensionable pay. In addition, employer contributions of £200, 0.8% of pensionable pay, were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees.

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

No individuals retired early on ill health grounds.

Average number of persons employed

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

Objective	2006-07 Number		2005-06 Number	
	Total	Permanent staff	Others	
Maximise the value to the Scottish economy of the wood Resource becoming available over the next 20 years.	6	6	-	5
Create a diverse forest resource of high quality that will contribute to the economic needs of Scotland throughout the 21st century and beyond.	53	53	-	58
Make sure that Scotland's trees, woods and forests make a positive contribution to the environment.	32	32	-	26
Create opportunities for more people to enjoy trees, woods and forests in Scotland.	21	21	-	17
Help communities benefit from woods and forest.	8	8	-	7
Total	120	120	-	113

4. Other Administration Costs

	2006-07 £000	2005-06 £000
Shared central services	2,025	2,188
Other administration expenditure	1,477	1,724
<u>Non cash costs</u>		
Cost of capital	33	8
Depreciation	83	81
Notional audit fees – audit work	41	41
Notional audit fees – non-audit work	-	-
Fixed asset write-off	25	11
Provisions provided in year	2	108
Provisions not required written back	(15)	-
Unwinding of discount	5	(9)
Impairment	11	15
Sub-total	185	255
Non-staff administration costs	3,687	4,167

Administration expenditure includes operating lease rentals on buildings totalling £155,000.

Administration expenditure includes the cost of shared central services provided to Forestry Commission Scotland. Six areas of work are identified as shared services:

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

For each of the shared services, a service board composed of 'intelligent buyers' from the countries and the service provider has joint accountability for the operation to ensure the needs of the customer and the wider organisation are met. Charges were made at regular intervals during the year.

5. Programme costs

	2006-07	2005-06
	£000	£000
Support for forestry and the rural economy, including grants paid to private woodland owners	21,745	13,467
Grants paid to private woodland owners from EU receipts	7,829	6,271
Forestry Development Programmes	4,443	2,329
Other programme costs	140	188
<u>Non cash costs</u>		
Cost of capital	18,476	15,962
Sub total	52,633	38,217
Forest Enterprise Scotland Funding	29,258	27,826
Programme Expenditure	81,891	66,043

Forest Enterprise Scotland Funding

The role of Forest Enterprise Scotland is to manage the Scottish forest estate in accordance with the economic, environmental and social objectives set by the Scottish Ministers. Its main trading activity is to harvest and market timber on a commercial basis and the financial performance of Forest Enterprise Scotland is closely linked to the income it generates from timber sales. With timber prices at a low level, Forest Enterprise Scotland incurs a loss on its operating activities which is funded by Forestry Commission Scotland. Forest Enterprise Scotland is also involved in recreation, conservation and heritage activities and the net expenditure on these activities is also financed by Forestry Commission Scotland.

Forestry Commission Scotland's programme costs include Forest Enterprise Scotland's deficit of £29,258,000 (2005-06 £27,826,000). After adjusting for capital and non-cash transactions of £3,074,000 (2005-06 £350,000), Forest Enterprise received cash funding of £32,332,000 (2005-06 £27,476,000). To reconcile resource outturn to the net cash requirement in the Statement of Parliamentary Supply, the non-cash transactions are adjusted by Forest Enterprise Scotland's net capital expenditure to calculate the adjustment of Forest Enterprise Scotland's deficit to financing of £2,924,000 (2005-06 £3,276,000).

	2006-07	2005-06
	£000	£000
Capital		
Net capital	(5,998)	(2,926)
Accruals adjustments		
Cost of capital	1,421	1,247
Non cash items	2,888	1,761
Changes in working capital, including cash	(1,314)	286
Use of provision	(71)	(18)
Total cash adjustments	(3,074)	350
Adjust supply expenditure for net capital	5,998	2,926
Adjustment of FE deficit to financing (Note 2)	2,924	3,276

6. Income

	2006-07	2005-06
	£000	£000
Operating income	98	219
Administrative Income	98	219
Planting grant co-financing from EU	7,829	6,271
EU funding on partnership projects	355	108
Gain on sale of estate land – non-cash	786	937
Other Income	740	704
Programme income	9,710	8,020
Total	9,808	8,239

7. Analysis of net operating cost by spending body

	Estimate	2006-07 £000 Outturn	2005-06 £000 Outturn
Forestry Commission Scotland	81,486	80,398	66,173
Net Operating Cost	81,486	80,398	66,173

8. Tangible fixed assets

	Forest Estate £000	Land £000	IT £000	Assets under construction £000	Total £000
Cost or valuation:					
At 1 April 2006	455,800	30,277	691	284	487,052
Additions	678	3,137	72	261	4,148
Transfers	-	-	(7)	-	(7)
Disposals	(860)	(31)	(129)	-	(1,020)
Revaluation	73,463	7,224	-	-	80,687
Impairment	-	-	(15)	-	(15)
At 31 March 2007	529,081	40,607	612	545	570,845
Depreciation:					
At 1 April 2006			410		410
Provided during year			64		64
Transfers			(6)		(6)
Disposals			(104)		(104)
Impairment			(4)		(4)
At 31 March 2007			360		360
Net Book Value at:					
31 March 2007	529,081	40,607	252	545	570,485
1 April 2006	455,800	30,277	281	284	486,642

The forest estate was revalued at £357,446,000 as at 31 March 2003 by a country valuation panel comprising John Clegg & Co. Chartered Surveyors, Bidwells Chartered Surveyors and professionally qualified land agents employed by the Forestry Commission. The valuation is based on a sample number of properties and the results extrapolated by professionally qualified staff employed by the Forestry Commission. Values are determined using the RICS Existing Use basis. The next full revaluation is due as at 1 April 2008 with annual updates in the intervening years based on an external professional opinion. For 2006-07, valuations were updated using indexation information provided by the country valuation panel.

Non-forest land was valued at £18,953,000 as at 31 March 2002 by professionally qualified land agents employed by the Forestry Commission. This was on the basis of Open Market Value, Existing Use Value, Depreciated Replacement Cost Value or Discounted Cash Flow Value as appropriate under the RICS guidance. The properties were scheduled to be re-assessed as at 31 March 2005 in accordance with the three-yearly interval stated in the previous accounting policy. To bring the policy in line with UK GAAP, professional valuations of non-forest land and dwellings and other buildings will be undertaken on a five-yearly basis. The first five-yearly valuation will be at 1 April 2008, to coincide with the next full revaluation of the Forest Estate. Annual updates in the intervening years are based on indices provided by the District Valuer.

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

As at 31 March 2007 management had taken the decision that 179 properties within the Forest Estate and Other Land were surplus to operational requirements. For marketing and other reasons these properties may not be disposed of immediately. They are included in the financial statements at a net book value of £21,417,013. These values have been determined using an Open Market Valuation basis by internal, professionally qualified staff. Prior to revaluation the net book values were £5,349,711.

Information Technology (IT) was restated to a current value of £252,000 as at 31 March 2007 using an index provided by the Office for National Statistics.

9. Intangible fixed assets

The intangible fixed asset represents the cost of acquiring an annual entitlement to a Single Farm Payment administered by SEERAD.

	2006-07 £000	2005-06 £000
Valuation:		
At 1 April 2006	130	130
Additions	93	-
Disposals	-	-
Revaluation	-	-
At 31 March	223	130
Amortisation:		
At 1 April 2006	16	-
Provided during year	19	16
Disposals	-	-
Revaluation	-	-
At 31 March	35	16
Net book value at 31 March	188	114

10. Debtors

10(a) Analysis by type

	2006-07 £000	2005-06 £000
Amounts falling due within one year:		
Trade debtors	440	348
Other debtors	2	2
House purchase loans to employees	9	13
EU funding accrued income	831	406
Prepayments and accrued income	88	47
Total	1,370	816
	2006-07 £000	2005-06 £000
Amounts falling due after more than one year:		
House purchase loans to employees	32	49
Total	32	49

Forestry Commission Scotland had house purchase loans totalling £41,000 outstanding at 31 March 2007 relating to 7 employees.

10(b) Intra-Government Balances

	Amounts falling due within one year		Amounts falling due after more than one year	
	£000		£000	
	2006-07	2005-06	2006-07	2005-06
Balances with other central government bodies	854	613	-	-
Balances with local authorities	6	-	-	-
Balances with NHS Trusts	-	-	-	-
Balances with public corporations and trading funds	-	-	-	-
Intra-government balances	860	613	-	-
Balances with bodies external to government	510	203	32	49
Total debtors at 31 March	1,370	816	32	49

11. Cash at Bank and in Hand

	2006-07 £000	2005-06 £000
Balance at 1 April	276	1,600
Net change in cash balances	1,090	(1,324)
Balance at 31 March	1,366	276

The following balances at 31 March are held at:

Balance with Office of Paymaster General	1,366	276
Cash at commercial banks and cash in hand	-	-
Balance at 31 March	1,366	276

Amounts issued from the Scottish Executive for supply but not spent at year end	1,366	276
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12. Creditors

12(a) Analysis by type

	2006-07 £000	2005-06 £000
Amounts falling due within one year		
Trade creditors	305	496
Other creditors	53	53
Accruals and deferred income	67	185
Current part of finance leases	38	26
Amounts issued from the Scottish consolidated fund (supply) but not spent at 31 March	1,366	276
Total	1,829	1,036

	2006-07 £000	2005-06 £000
Amounts falling due after more one year		
Finance leases	332	370
Total	332	370

12(b) Intra-Government Balances

	Amounts falling due within one year		Amounts falling due after more than one year	
	£000	£000	£000	£000
	2006-07	2005-06	2006-07	2005-06
Balances with other central government bodies	1,371	278	-	-
Balances with local authorities	9	10	-	-
Balances with NHS Trusts	-	-	-	-
Balances with public corporations and trading funds	-	-	-	-
Intra-government balances	1,380	288	-	-
Balances with bodies external to government	449	722	332	125
Total creditors at 31 March	1,829	1,010	332	125

13. Provisions for liabilities and charges

	Early departure cost £000
Balance at 1 April 2006	93
Provided in the year	2
Provisions not required written back	(15)
Utilised in the year	(38)
Unwinding of discount	5
Balance at 31 March 2007	47

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

14. General Fund

	2006-07 £000	2005-06 £000
Balance at 1 April	373,009	372,790
Net operating cost for the year	(80,398)	(66,173)
Net Parliamentary funding	70,433	50,140
Forest Enterprise Scotland capital and non-cash adjustments (note 5)	(3,074)	350
Notional cost of capital	18,509	15,970
Transfer of fixed assets from/to other forestry bodies	(1)	184
Timing between accrual and cash VAT	14	(19)
Non-cash inter-country transfers	(10)	2
Notional audit fees	41	41
Amounts issued from the Scottish Consolidated Fund for supply but not spent at year end	(1,366)	(276)
Balance at 31 March	377,157	373,009

15. Revaluation Reserve

	2006-07 £000	2005-06 £000
Balance at 1 April	113,389	53,473
Arising on revaluation during the year:		
Forest estate	73,463	54,641
Land	7,224	5,275
	80,687	59,916
Balance at 31 March	194,076	113,389

16. Notes to the Cash Flow Statement

16(a) Reconciliation of operating cost to operating cash flows

		2006-07 £000	2005-06 £000
Net operating cost	Note	(80,398)	(66,173)
Adjustments for non-cash transactions	4/5/6	17,875	15,280
Forest Enterprise Scotland capital and non-cash adjustments	5	(3,074)	350
Timing between accrual and cash VAT		14	(19)
Non-cash inter-country transfers		(10)	2
(Increase)/decrease in debtors		(537)	(107)
Increase/(decrease) in creditors		793	(1,301)
less movements in creditors relating to items not passing through OCS		(1,090)	1,324
Use of provisions	13	(38)	(6)
Net cash outflow from operating activities		<u>(66,465)</u>	<u>(50,650)</u>

16(b) Analysis of capital expenditure and financial investment

		2006-07 £000	2005-06 £000
Tangible fixed asset additions	Note 8	(4,148)	(660)
Intangible fixed asset additions	9	(93)	-
Proceeds of disposal of fixed assets		1,677	1,430
Creditors falling due after more than one year	12	(38)	16
Loans to other bodies		-	-
Repayment of loans to other bodies		-	-
Net cash inflow/(outflow) from investing activities		<u>(2,602)</u>	<u>786</u>

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

	Capital expenditure £000
Request for resources	(4,241)
Net movement in debtors/creditors	-
Total 2006-07	<u>(4,241)</u>
Total 2005-06	<u>(660)</u>

16(d) Analysis of financing

		2006-07 £000	2005-06 £000
From the Scottish Consolidated Fund	Note 14	70,433	50,140
Net financing		<u>70,433</u>	<u>50,140</u>

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

		2006-07 £000	2005-06 £000
Net cash requirement	Note	(69,067)	(49,864)
Payment of amount due to Scottish Consolidated Fund		(276)	(1,600)
Net financing from the Scottish Consolidated Fund	16(d)	70,433	50,140
Increase/(decrease) in cash		<u>1,090</u>	<u>(1,324)</u>

17. Notes to the Statement of Operating Costs by Departmental Aim and Objectives

Expenditure in the schedule comprises the direct costs incurred by Forestry Commission 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.

Capital employed by Departmental Aim and Objectives at 31 March 2007

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

	2006-07 £000	2005-06 £000
Maximise the value to the Scottish economy of the wood resource becoming available over the next 20 years	27,844	18,158
Create a diverse forest resource of high quality that will contribute to the economic needs of Scotland throughout the 21 st century and beyond	242,480	238,663
Make sure that Scotland's trees, woods and forests make a positive contribution to the environment	162,284	122,704
Create opportunities for more people to enjoy trees, woods and forests in Scotland	98,477	74,334
Help communities benefit from woods and forests	40,148	32,539
	<u>571,233</u>	<u>486,398</u>

18. Capital commitments

There were no contracted capital commitments at 31 March 2007 (Nil at 31 March 2006).

19. Commitments under leases

19(a) Operating Leases

Commitments under operating leases to pay rentals during the year following the year of these accounts are given in the table below, analysed according to the period in which the lease expires.

	2006-07 £000	2005-06 £000
Obligations under operating leases comprise:		
Buildings:		
Expiry within 1 year	14	9
Expiry after 1 year but not more than 5 years	50	50
Expiry thereafter	91	91
Total	<u>155</u>	<u>150</u>

19(b) Finance Leases

Forestry Commission Scotland's obligations under finance leases are as follows:

	2006-07 £000	2005-06 £000
Rentals due in one year or less	38	26
Rentals due in more than one year but not more than two years	38	27
Rentals due in more than two years but not more than five years	114	73
Rentals due in more than five years	180	270
Total	370	396

20. Other financial commitments

Following approval of a management plan for planting proposals, the Forestry Commission undertakes to pay planting grants in three instalments. At 31 March 2007, the Forestry Commission was committed under signed plans to the payment of future instalments of planting and replanting grants amounting to £59.0 million (£33.1 million in 2005-06). 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 £9.1 million at 31 March 2007 (£14.1 million in 2005-06).

21. Contingent Liabilities disclosed under FRS 12

There were no contingent liabilities at 31 March 2007 for damages caused to other persons' property or for compensation for personal injury to employees (£nil as at 31 March 2006).

There were no other contingent liabilities.

22. Post balance sheet events

These financial statements were authorised for issue on 11 July 2007 by the Accountable Officer.

23. Related party transactions

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

In addition, Forestry Commission Scotland has had various material transactions with other government departments and other central government bodies. The main entities within government with which Forestry Commission Scotland has had dealings are Scottish Executive and its Agencies, UK Co-ordinating Body, the Paymaster General's Office and HM Revenue and Customs.

During the year, Forest Enterprise Scotland entered into material transactions involving Martin Gale, a non-executive Forestry Commissioner and a member of the National Committee for Scotland, which are disclosed in their Annual Report and Accounts for 2006-07.

Simon Pepper, a member of the National Committee for Scotland, has entered into a Scottish Forestry Grant Scheme contract, but no payments were made during the year. The total value of the contract is £2,220.

Simon Rennie, a non-executive member of the National Committee for Scotland, is a Director of the Central Scotland Forest Trust which received funding and forestry grant payments totalling £1,166,000. Amounts owing to the Central Scotland Forest Trust at 31 March 2007 was £1,000.

24. Financial Instruments

FRS 13, *Derivatives and Other Financial Instruments*, requires disclosure of the role which financial instruments have had during the period in creating or changing the risks an entity faces in undertaking its activities. Because of the largely non-trading nature of its activities and the way in which government departments are financed, Forestry Commission 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.

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

Liquidity risk

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

Interest-rate risk

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

Foreign currency risk

Forestry Commission 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 14.

25. Entities within the departmental boundary

The entities within the boundary during 2006-07 were as follows:

a. Supply-financed agencies

None

b. Non-executive NDPBs:

None

c. Other entities:

None



FORESTRY COMMISSION SCOTLAND

DIRECTION BY THE SCOTTISH MINISTERS in accordance with section 45(1) of the Forestry Act 1967

1. The Forestry Commission shall prepare a statement of accounts for the financial year ended 31 March 2006 and subsequent years in relation to sums paid out of the Scottish Consolidated Fund. The statement shall comply with the accounting principles and disclosure requirements of the edition of the Government Financial Reporting Manual (FReM) which is in force for the year for which the statement is prepared.
2. The accounts shall be prepared so as to give a true and fair view of the income and expenditure, recognised gains and losses, and cash flows for the financial year, and of the state of affairs as at the end of the financial year.
3. This direction shall be reproduced as an appendix to the statement of accounts. The direction given on 28 November 2000 is hereby revoked.

Signed by the authority of the Scottish Ministers

Dated 17 January 2006



Forest Enterprise Scotland

Annual Accounts 2006-07

FINANCES

Basis of accounts

The Forest Enterprise Scotland 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.

Departmental accounting boundary

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

Financial review

Forest Enterprise Scotland incurred a deficit on its Income and Expenditure Account, before cost of capital, of £27.8 million (2005-06 £26.6 million).

The operating deficit fell by £1.5m million as described below:

- The income from sales of timber was £36.7 million which was an increase of £1.7 million on 2005-06. This reflected a significant improvement in prices in the latter part of the year and a 3% increase in despatched volume.
- Deer management and other forest maintenance income of £0.8 million was at a similar level to 2005-06.
- The income from the management of the estate of £6.4 million showed a marked increase of £1.1 million over 2005-06. The main reason for this was income from the windfarm development at Whitelee south of Glasgow.
- The overall cost of harvesting and marketing at £21.8 million was similar to 2005-06 with a minor increase of just under 1%.
- Expenditure on forest roads at £8.7 million was £0.9 million over 2005-06 and mainly reflected an increase in road network maintenance.
- The deer management and other forest protection and maintenance costs were £18.8 million which was a significant increase of £0.8 million on 2005-06. This was due to an increase in the area planted. On restocking, the area planted was 5440ha which was an increase of 1058ha on 2005-06.

The net cost of recreation, conservation and heritage was £13.4 million. The increase of £2.1 million reflected an increase in spending on recreation and access, heritage projects and community involvement. The increase in community involvement is due to operational spending on the Woodlands In and Around Towns initiative (WIAT).

Additions to dwellings and other buildings amounted to £3.7 million. Building assets were revalued upwards by £3 million using information provided by the District Valuer. Buildings under construction at the year end amounted to £0.6 million. The main projects were the building of a new forest district office at Smithton, Inverness, purchase of the Forest Enterprise Scotland Head Office building in Inverness and buildings associated with the purchase of land for Forestry Commission Scotland at East Grange in Fife. The land will be used for carbon sequestration and the WIAT initiative. Some of the buildings will be developed for the WIAT initiative and surplus ones will be sold.

Purchases of forestry vehicles, machinery and equipment (VME) amounted to £0.9 million compared with net disposals of £0.1 million.

After adjusting the total deficit for items not involving the movement in cash and for capital expenditure and receipts, the net cash funding received from Forestry Commission Scotland was £32 million (2005-06 £27 million).

Forest Holidays

In May 2006, the Forestry Commission entered into a partnership with the Camping and Caravanning Club to take over management of its Forest Holidays business. This has resulted in a significant change to the way in which the

Forestry Commission will account for its interest in Forest Holidays. As the investment in the partnership is outside the departmental boundary and Forest Enterprise Scotland does not exercise in-year budgetary control over the partnership, then, in accordance with FReM 2.4, the investment will be treated as a fixed asset investment.

The net book value of Forest Enterprise Scotland's cabin and campsite land and buildings transferred to the partnership was £4,468,000. In return, Forest Enterprise Scotland received £3,880,000 comprising

- a fixed asset investment valued at nil at 31 March 2007;
- as lessors of the sites to the partnership, Forest Enterprise Scotland will show a long term debtor balance on its balance sheet to represent the net present value of the future rental payments over 75 years due by the partnership company totalling £2,469,000; and
- a long term long debtor of £1,411,000 with the capital and interest due to be repaid in five instalments commencing year end 31 March 2012.

During 2006-07, no income was received from the investment in the partnership.

Future Events

There are no Post-Balance Sheet Events at 31 March 2007.

Future Work

The top priority recreation project is to construct a new visitor infrastructure in the Tweed Valley Forest Park at Glentress near Peebles. The project is at planning stage and if all stays on schedule, the new development is due to be completed during the summer of 2008. Plans are being developed to improve facilities at other sites across Scotland.

We expect to see an increase in our activities in relation to new planting, land acquisition and disposal. To achieve the targets set out in the Scottish Climate Change Programme we will continue to identify new planting opportunities both on the existing national forest estate and also through acquisition of appropriate land. We also anticipate acquiring more land that can contribute to the Woods In and Around Towns (WIAT) initiative or which offers good opportunities to expand or restore native woodlands. These acquisitions will in part be funded through sales of land not delivering high public benefits.

The Forestry Commission is continuing to progress development of windfarms in line with the Scottish Executive's policy on renewable energy. Currently, there are five sites operating and construction work at the Whitelee project, south of Glasgow commenced in the summer of 2006.

Details of all other developments and commitments are shown in the Forestry Commission Scotland Corporate Plan available on the internet at www.forestry.gov.uk/scotland.

Other Disclosures

Research and Development

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

Pensions

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

Supplier Payment Policy

Forest Enterprise Scotland 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 2006-07 indicates that 98.7% of invoices were paid within the due date. Arrangements for handling complaints on payment performance are notified to suppliers on contracts.

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

Auditors

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

Disclosure of audit information to the auditors

So far as the Accountable Officer is aware, there is no relevant audit information of which Forest Enterprise Scotland's auditors are unaware. The Accountable Officer has taken all the steps that he ought to have taken to make himself aware of any relevant audit information and to establish that Forest Enterprise Scotland's auditors are aware of that information.

Hugh Insley
Chief Executive and Agency Accountable Officer
5 July 2007

REMUNERATION REPORT

Remuneration policy

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

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

- Guidelines circulated by the Cabinet Office implementing Government decisions on the recommendations of the Senior Salaries Review Body (SSRB). The SSRB is responsible for monitoring the operation of the Senior Civil Service pay system and for making recommendations to the Government on the shape of the system, including the salary values for the minimum and maximum of each of the senior pay bands, the range of percentage increases to base salary and range of bonuses. Further information on the work of the SSRB can be found at www.ome.uk.com.
- Reporting Officers recommendations on the relative performance of each of their senior staff, whether a bonus should be paid and if so whether low or high. The Senior Pay Committee consider the recommendations, determine the allocation of senior staff to tranches, and decide the percentage increase to salary and any bonus to be awarded.

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

Employment contracts

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

The senior staff covered in this report hold appointments which are open-ended until they reach the normal retiring age, with a maximum notice period of six months. Early termination, other than for misconduct, would result in the individual receiving compensation as set out in the Civil Service Compensation Scheme.

Salary and pension entitlements

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

	2006-07		2005-06	
	Salary	Benefits in kind	Salary	Benefits in kind
	£000	to nearest £100	£000	to nearest £100
Hugh Insley	85-90	-	85-90	-
Les Bryson	60-65	1,000	60-65	800
Alan Stevenson	55-60	-	55-60	-
Laurie Tyson	55-60	-	55-60	-
Moira Baptie	45-50	1,100	45-50	1,300
Alan Duncan	40-45	-	40-45	-
Stephanie Atwell	25-30	-	20-25	-
James Simpson	20-25 ¹	-	40-45	-
Nicol Sinclair	35-40	-	-	-
Craig Heaney	45-50 ²	600	-	-
Michael Ansell	20-25 ³	-	-	-

¹ Figure quoted is for period 1 April 2006 to 2 November 2006. Full year equivalent is 40-45.

² Figure quoted is for period 1 April 2006 to 15 October 2006. Full year equivalent is 70-75.

³ Figure quoted is for period 4 December 2006 to 31 March 2007. Full year equivalent is 60-65.

The salary and pension costs for members of the National Committee for Scotland are disclosed in the Forestry Commission Scotland Annual Report and Accounts 2006-07.

Salary

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

Benefits in kind

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

Pension benefits

	Accrued pension at age 60 at 31 March 2007 and related lump sum £000	Real increase in pension and related lump sum at age 60 £000	CETV at 31 March 2007 £000	CETV at 31 March 2006 £000	Real increase in CETV £000	Employer contribution to partnership pension account Nearest £100
Hugh Insley	35-40 plus LS of 105-110	0-2.5 plus LS of 2.5-5.0	837	777	23	-
Les Bryson	20-25 plus LS of 60-65	0-2.5 plus LS of 0-2.5	385	371	5	-
Laurie Tyson	10-15 plus LS of 40-45	0-2.5 plus LS of 0-2.5	261	243	10	-
Alan Stevenson	15-20 plus LS of 55-60	0-2.5 plus LS of 0-2.5	332	316	8	-
Moira Baptie	10-15 plus LS of 30-35	0-2.5 plus LS of 0-2.5	151	143	5	-
Alan Duncan	15-20 plus LS of 55-60	0-2.5 plus LS of 0-2.5	363	340	12	-
Stephanie Atwell	5-10 plus LS of 15-20	0-2.5 plus LS of 0-2.5	70	63	7	-
James Simpson	10-15 plus LS of 20-25	0-2.5 plus LS of 0-2.5	140	124	14	-
Nicol Sinclair	5-10 plus LS of 20-25	0-2.5 plus LS of 0-2.5	95	86	8	-
Craig Heaney	30-35 plus LS of 100-105	0-2.5 plus LS of 0-2.5	772	770	8	-
Michael Ansell	0-5 plus LS of 0-5	0-2.5 plus LS of 0-2.5	5	0	4	-

Civil Service Pensions

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

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

The partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3% and 12.5% (depending on the age of the member) into a stakeholder pension product chosen by the employee. The employee does not have to contribute but where they do make contributions, the employer will match

these up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.8% of pensionable salary to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement).

The accrued pension quoted is the pension the member is entitled to receive when they reach 60, or immediately on ceasing to be an active member of the scheme if they are already 60.

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

Cash Equivalent Transfer Values

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

Real increase in CETV

This reflects the increase in CETV effectively funded by the employer. It does not include the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

Hugh Insley
Chief Executive and Agency Accountable Officer
5 July 2007

STATEMENT OF ACCOUNTABLE OFFICER'S RESPONSIBILITIES

Under the Forestry Act 1967, Scottish Ministers have directed Forestry Commission Scotland to prepare, for each financial year, a statement of accounts for Forest Enterprise Scotland in the form and on the basis set out in the Accounts Direction. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of Forest Enterprise Scotland and of its income and expenditure, recognised gains and losses and cash flows for the financial year.

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

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

Director, Forestry Commission Scotland, as the additional Accountable Officer for Forestry Commission Scotland, has designated the Chief Executive as the Accountable Officer for Forest Enterprise Scotland. The responsibilities of an Accountable Officer, including responsibility for the propriety and regularity for the public finances for which the Accountable Officer is answerable, for keeping proper records and for safeguarding Forest Enterprise Scotland's assets, are set out in the Memorandum to Accountable Officers of Other Public Bodies issued by the Scottish Executive and published as part of the Scottish Public Finance Manual. The relationship between Director, Forestry Commission Scotland and the Accountable Officer, together with their respective responsibilities, is set out in writing.

STATEMENT ON INTERNAL CONTROL

1. Scope of responsibility

As Agency Accountable Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of Forest Enterprise Scotland policies, aims and objectives set by the Scottish Ministers, whilst safeguarding the public funds and departmental assets for which I am personally responsible, in accordance with the responsibilities assigned to me.

Forestry is a devolved matter although certain activities such as international affairs, plant health and forest research remain reserved by Westminster. The Scottish Ministers decide the policy and financial framework within which the Forestry Commission and the Agency, operates in Scotland and they are accountable to the Scottish Parliament for all matters concerning the Agency

The Forestry Commissioners are statutorily responsible for the stewardship of the estate placed at their disposal by Ministers. The Forestry Commissioners have delegated to the statutory Scottish National Committee the normal exercise of their powers and duties in connection with the estate in Scotland. A non-executive Forestry Commissioner chairs the National Committee and its members include a further non-executive Commissioner, the Agency Chief Executive and a representative of the Scottish Executive.

The Director General is the Deputy Chairman of the Forestry Commissioners and the senior official in the Forestry Commission. In addition to his role as a Commissioner, he is the Principal Accounting Officer, formally responsible to Parliament for the financial affairs of the Forestry Commission.

The Director Scotland is the executive Forestry Commissioner responsible to the Minister and to the Director General for the work of the Forestry Commission in Scotland. The Director Scotland is appointed Accountable Officer and is a member of the National Committee for Scotland. The Chief Executive of the Forest Enterprise Agency is responsible, normally through the Director Scotland, to the National Committee for the management of the Agency. The Chief Executive is a member of the National Committee and is designated as Agency Accountable Officer, responsible for the Agency's accounts and financial procedures and for the proper, effective and efficient use of resources provided to the Agency within the terms of the Framework Document and in pursuit of the agreed objectives and targets.

The exact responsibilities of the Director Scotland and the Agency Chief Executive are detailed in their letters of appointment. The Director General, Director Scotland and the Agency Chief Executive are liable to be called to appear before the relevant Parliamentary Committee to answer for their financial responsibilities. It will be for Ministers to decide who should represent them at other Parliamentary Committee hearings.

The Scottish Public Finance Manual (SPFM) is issued by Scottish Ministers to provide guidance to the Scottish Executive and other relevant bodies on the proper handling of public funds. It is mainly designed to ensure compliance with statutory and parliamentary requirements, promote value for money and high standards of propriety, and secure effective accountability and good systems of internal control.

2. Purpose of the System of Internal Control

The system of internal control is designed to manage risk rather than eliminate the risk of failure to achieve Forest Enterprise Scotland 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 Forest Enterprise Scotland policies, aims and objectives; to evaluate the nature and extent of those risks and to manage them efficiently, effectively and economically. The process within Forest Enterprise Scotland accords with the SPFM and has been in place for the year ended 31 March 2007 and up to the date of approval of the annual report and accounts, and accords with guidance from the Scottish Ministers.

3. Risk and Control Framework

All bodies subject to the requirements of the SPFM must operate a risk management strategy in accordance with relevant guidance issued by the Scottish Ministers. The general principles for a successful risk management strategy are set out in the SPFM.

Risk management is the responsibility of every member of staff in Forest Enterprise Scotland. Everyone has a role to play in managing the risks within their own area of authority. Risk awareness and responsibility lies in parallel with

the structure of Forest Enterprise Scotland's objectives. At every level of objective there is equivalent delegation of responsibility of associated risk.

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

- Policies set by the National Committee for Scotland, the Forestry Commission Scotland Management Board and the Agency Management Board. Written procedures support the policies where appropriate;
- Comprehensive regular reporting to the National Committee and Management Boards designed to monitor key risks and their controls. Decisions to rectify problems are made at their regular meetings; and
- Planning and budgeting systems used to set objectives, agree action plans and allocate resources. Progress towards meeting planned objectives is monitored regularly.

More generally, Forest Enterprise Scotland is committed to a process of continuous development and improvement: developing systems in response to any relevant reviews and developments in best practice in this area. In particular, in the period covering the year to 31 March 2007 and up to the signing of the accounts Forest Enterprise Scotland has:

- Worked with a private sector risk management expert to develop a series of workshops, the first of which was held in June 2006. The purpose of these is to share experiences of handling risk at country and agency level, to review progress on embedding risk management and to ensure common standards when assessing risks (impact and likelihood);
- Updated the existing Forest Enterprise Scotland risk register which was considered and approved by the Agency Management Board on 14 November 2006. It is intended to further embed the Risk Management process by organising a meeting of representative senior and line managers from Forestry Commission and Forest Enterprise Scotland during the first half of 2007-08 to review the risk register. This review will consider current content, scoring, adequacy of controls and identify omissions.
- Participated in the Commission wide, Risk Management Group (RMG), which met on 19 May 2006, 23 August 2006 and 30 November 2006 to consider and ensure continued development of risk management and the sharing of best practice across the FC.
- Supported the update of the commercial risk management software package to ensure alignment with internal audit planning arrangements.
- Participated in discussions within the RMG to consider country priorities for the preparation of Business Continuity Plans (BCPs) which meet their needs and which clearly link to business driven risk management. These discussions identified that across GB the three most business critical must deliver services/activities, are timber production, access particularly for recreation and grant payments. Work will be undertaken in 2007-08 to produce BCPs for each of these areas.

During 2006-07 the Board of Commissioners reviewed the country arrangements and recommended the setting up of separate Audit and Risk Committees (ARC) in each of the three countries. Interim arrangements were put in place for Scotland using members of the existing Internal Control Committee (ICC). This interim Committee met once in June 2006. The ARC in its new form was set up and approved by the National Committee in October 2006 and met in March 2007. In both cases they considered a range of reports from management, and from internal and external audit.

The new Audit and Risk Committee (ARC) membership consists of 3 Non –Executives, the Director, Agency Chief Executive and Director Corporate Services for Scotland, the Head of Internal Audit and an Audit Scotland representative. It deals with higher level issues concerning control and governance and supports the National Committee, Country Director and the Agency Chief Executive. It is provided with detailed advice on the work of Internal Audit in particular, and control in general and replaces the local Internal Control Committee (ICC).

The ARC advises the National Committee and Accountable Officers on:

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

The ARC will also periodically review its own effectiveness and report the results of that review to the National Committee.

4. Review of Effectiveness

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

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

The Head of Internal Audit has prepared an annual report and assurance statement to me as Agency Chief Executive and Accountable Officer. The report includes an overall assessment of the adequacy and effectiveness of risk management, control and governance within Forestry Commission and Forest Enterprise Scotland. The Director General as Principal Accounting Officer has received a similar report and assurance statement including any comments specific to the Great Britain core responsibilities. The overall opinion is that internal control within the Forestry Commission and Forest Enterprise Scotland continues to provide substantial assurance that material risks to the achievement of objectives are adequately managed.

5. Significant Internal Control Problems

None

Hugh Insley
 Chief Executive and Agency Accountable Officer
 5 July 2007

Independent auditor's report to Forest Enterprise Scotland, the Auditor General for Scotland and the Scottish Parliament

I have audited the financial statements of Forest Enterprise Scotland for the year ended 31 March 2007 under the Forestry Act 1967. These comprise the Income and Expenditure Account, Balance Sheet, the Cash Flow Statement and Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out within them.

This report is made solely to the parties to whom it is addressed in accordance with the Public Finance and Accountability (Scotland) Act 2000 and for no other purpose. In accordance with paragraph 123 of the Code of Audit Practice approved by the Auditor General for Scotland, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Respective responsibilities of Forest Enterprise Scotland, Accountable Officer and Auditor

Forest Enterprise Scotland and the Accountable Officer are responsible for preparing the annual report and the financial statements in accordance with the Forestry Act 1967 and directions made thereunder by the Scottish Ministers. The Accountable Officer is also responsible for ensuring the regularity of expenditure and receipts. These responsibilities are set out in the Statement of Accountable Officer's Responsibilities.

My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and with International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Auditor General for Scotland.

I report my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Forestry Act 1967 and directions made thereunder by the Scottish Ministers. I also report 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; and
- 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 Annual Report and Finances summary is not consistent with the financial statements, if Forest Enterprise Scotland has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by relevant authorities regarding remuneration and other transactions is not disclosed.

I review whether the Statement on Internal Control reflects Forest Enterprise Scotland's compliance with Scottish Executive's guidance. I report if, in my opinion, it does not comply with the guidance or if it is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered, whether the statement covers all risks and controls. Neither am I required to form an opinion on the effectiveness of Forest Enterprise Scotland's corporate governance procedures or its risk and control procedures.

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

Basis of audit opinion

I conducted my audit in accordance with the Public Finance and Accountability (Scotland) Act 2000 and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board as required by the Code of Audit Practice approved by the Auditor General for Scotland. An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of expenditure and receipts included in the financial statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements made by Forest Enterprise Scotland and the Accountable Officer in the preparation of the

financial statements, and of whether the accounting policies are appropriate to Forest Enterprise Scotland's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements and the part of the Remuneration Report to be audited are free from material misstatement, whether caused by fraud or error, and that in all material respects the expenditure and 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 and the part of the Remuneration Report to be audited.

Opinion

Financial statements

In my opinion

- the financial statements give a true and fair view, in accordance with Forestry Act 1967 and directions made thereunder by the Scottish Ministers, of the state of affairs of Forest Enterprise Scotland as at 31 March 2007 and of the operating deficit, total recognised gains and losses and cash flows for the year then ended; and
- the financial statements and the part of the Remuneration Report to be audited 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; and
- 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.

Lorna Meahan CA
Audit Scotland
7th Floor, Piazza Tower
East Kilbride
G74 1LW

11 July 2007

**Forest Enterprise Scotland
Income and Expenditure Account
for the Year Ended 31 March 2007**

	Note	2006-07 £000	2005-06 £000
Operating Income			
Sales of Timber		36,710	34,998
Forest Protection and Maintenance		772	845
Management and Development of Estate	2		
Continuing operations		6,310	4,503
Discontinued operations		99	758
		<u>43,891</u>	<u>41,104</u>
Operating Expenditure			
Forest Planning		4,126	4,066
Harvesting and Haulage of Timber		21,840	21,632
Forest Roads		8,667	7,811
Forest Protection and Maintenance		18,817	18,022
Management and Development of Estate	2		
Continuing operations		3,393	3,340
Discontinued operations		172	884
		<u>57,015</u>	<u>55,755</u>
Operating Deficit		(13,124)	(14,651)
Recreation, Conservation & Heritage			
Income		3,618	3,745
Expenditure		17,045	15,052
		<u>(13,427)</u>	<u>(11,307)</u>
Operating Deficit Net of R,C & H		(26,551)	(25,958)
Deficit on sale of properties	4	(1,286)	(621)
Deficit		<u>(27,837)</u>	<u>(26,579)</u>
Notional cost of capital	5	(1,421)	(1,247)
Net Deficit for the Year		<u>(29,258)</u>	<u>(27,826)</u>
Transferred to General Fund		<u>(29,258)</u>	<u>(27,826)</u>

There have been no acquisitions during the year.

The notes on pages 69 to 80 form part of these accounts

Forest Enterprise Scotland
Statement of Total Recognised Gains and Losses
for the Year Ended 31 March 2007

	Note	2006-07 £000	2005-06 £000
Net deficit for the year		(29,258)	(27,826)
Revaluation surplus for the year	14	2,630	1,560
Realised revaluation surplus	14	800	158
Total recognised gains and losses for the year		<u>(25,828)</u>	<u>(26,108)</u>

The notes on pages 69 to 80 form part of these accounts

**Forest Enterprise Scotland
Balance Sheet
as at 31 March 2007**

	Note	2006-07 £000	2005-06 £000
Fixed assets			
Tangible assets	6	31,320	28,996
Debtors falling due after more than one year	9	3,895	104
Current assets			
Stocks	8	3,376	3,838
Debtors	9	11,372	9,231
Cash at banks and in hand	10	3	2
		<u>14,751</u>	<u>13,071</u>
Creditors (amounts falling due within one year)	11	(4,669)	(4,311)
Net current assets		<u>10,082</u>	<u>8,760</u>
Total assets less current liabilities		45,297	37,860
Provisions for liabilities and charges	12	(937)	(1,008)
		<u>44,360</u>	<u>36,852</u>
Capital and reserves			
General fund	13	33,951	28,273
Revaluation reserve	14	10,409	8,579
		<u>44,360</u>	<u>36,852</u>

Hugh Insley
Chief Executive and Accountable Officer
5 July 2007

The notes on pages 69 to 80 form part of these accounts

**Forest Enterprise Scotland
Cash Flow Statement
for the Year Ended 31 March 2007**

	Note	2006-07 £000	2005-06 £000
Net cash outflow from operating activities	15a	(26,333)	(24,550)
Capital expenditure	15b	(5,998)	(2,926)
Financing	15c	32,332	27,476
Increase/(decrease) in cash	10	<u>1</u>	<u>-</u>

The notes on pages 69 to 80 form part of these accounts

Notes to the accounts

1 Accounting policies

In pursuance of Section 45(1) of The Forestry Act 1967, and as approved by the Scottish Ministers, these financial statements have been prepared in accordance with the 2006-07 *Government Financial Reporting Manual (FReM)* issued by HM Treasury. The accounting policies contained in the *FReM* follow UK generally accepted accounting practice for companies (UK GAAP) to the extent that it is meaningful and appropriate to the public sector.

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

1.1 Accounting convention

These accounts have been prepared under the historical cost convention modified to account for the revaluation of fixed assets.

1.2 Capital charge

A notional charge, reflecting the cost of capital used by Forest Enterprise Scotland, is included in the income and expenditure account. The charge is calculated at the Government's standard rate of 3.5% in real terms on the average carrying amount of all assets less liabilities.

1.3 Pensions

Past and present employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS). The defined benefit schemes are unfunded and are non-contributory except in respect of dependants' benefits. Forest Enterprise Scotland recognises the expected cost of these elements on a systematic and rational basis over the period during which it benefits from employees' services by payment to the PCSPS of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the PCSPS. In respect of the defined contribution schemes, Forest Enterprise Scotland recognises the contributions payable for the year.

1.4 Contingent liabilities

In addition to contingent liabilities disclosed in accordance with FRS 12, Forest Enterprise Scotland discloses for parliamentary reporting and accountability purposes certain statutory and non-statutory contingent liabilities where the likelihood of economic benefit is remote, but which have been reported to the Scottish Executive in accordance with the requirements of Government Accounting.

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

1.5 Tangible fixed assets

Legal ownership of Forest Holidays land is vested in Scottish Ministers with legal ownership of all other tangible fixed assets vested in the Forestry Commissioners.

Tangible fixed assets are revalued annually as at 31 March. From 1 April 2008, future revaluations shall take place on 1 April.

Dwellings and other buildings

Professionally qualified staff employed by the Forestry Commission undertake a full revaluation of dwellings and other buildings at five yearly intervals coinciding with that for the forest estate and non-forest land. They follow the principles set out in the RICS Red Book and value on the basis of Open Market Value, Existing Use Value, Depreciated Replacement Cost or Discounted Cash Flow as appropriate under the RICS guidance. Indices provided by the District Valuer are used to restate values between full valuations. The next full valuation shall take place on 1 April 2008.

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

Surplus properties

Fixed assets are reviewed regularly to ensure they continue to contribute positively to policy and business objectives. Assets that no longer provide the required level of contribution are considered for disposal by senior management. Decisions to sell such properties take into account a number of factors including the social and environmental effects as well as marketability. Surplus properties are retained in their fixed asset category and continue to be valued on the appropriate basis as set out in the preceding paragraphs. However, values may be materially affected by development factors such as the award of planning permissions. Where this occurs, assets are revalued to an Open Market Value based on advice provided by the selling agents and taking account of the circumstances of the sales. Revaluation takes place in the quarter following the development event.

Plant and machinery

Forestry vehicles, machinery and equipment are revalued every five years by professionally qualified staff employed by the Forestry Commission. They are restated to current value in the intervening years using valuations provided by internal professionally qualified staff for specialist forestry machinery and indices provided by the Office for National Statistics for all other assets. The normal threshold for capitalisation of assets is £3,000.

Office machinery and equipment

Office machinery and equipment (OME) values are restated to current value each year using indices provided by the Office for National Statistics. The normal threshold for capitalisation of assets is £1,500.

Assets under construction

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

1.6 Depreciation of tangible fixed assets

Land held under freehold is not depreciated. Depreciation is provided at rates calculated to write off the valuation, less estimated residual values, of each asset evenly over its expected useful life. Asset lives are as follows:

Freehold buildings	-	over 1 to 60 years
Buildings held under a finance lease	-	lesser of unexpired term of lease and 60 years
Forestry vehicles, machinery and equipment	-	over 3 to 16 years
Office equipment	-	over 4 to 20 years

1.7 Subsidiaries, associates and joint ventures

Where Forest Enterprise Scotland holds investments in subsidiaries, associates or joint ventures and does not exercise in-year budgetary control, then, in accordance with FReM 2.4, the investment will be treated as a fixed asset investment.

1.8 Stocks and work in progress

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

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

1.9 Income

Income represents income receivable from forestry and related activities and is stated net of value added tax.

1.10 Leases

Where substantially all the risks and rewards of ownership of a leased asset are borne by the Forestry Commission (a Finance Lease), the right to use the asset is initially recorded as a tangible fixed asset of the agency. A corresponding debt is recorded to the lessor represented by the minimum lease payments over the unexpired term of the lease discounted by the Treasury discount rate of 3.5%. Costs in respect of operating leases (any lease other than a Finance Lease) are charged on a straight-line basis over the lease term.

Assets held under Finance Leases are depreciated over the unexpired term of the lease. The value of each underlying asset is revalued annually as though ownership of the asset was vested in the Forestry Commissioners. The policies and procedures for carrying out the revaluations are those set out in 1.5 above.

Amounts receivable under finance leases are included in debtors and represent the total amount outstanding under lease agreements less unearned income. Finance lease income, having been allocated to accounting periods to give a constant periodic rate of return on the net cash investment, is included in operating income.

1.11 Provisions

Forest Enterprise Scotland provides for legal or constructive obligations which are of uncertain timing or amount at the balance sheet date on the basis of the best estimate of the expenditure required to settle the obligation. Where the effect of the time value of money is significant, the estimated risk-adjusted cash flows are discounted using the real rate set by HM Treasury.

1.12 Value added 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 Scotland. Any VAT due to or from HM Revenue and Customs at the year end is included in Forestry Commission Great Britain/England accounts as a debtor or creditor in the balance sheet. Irrecoverable VAT is charged to the income and expenditure account in the year in which it is incurred.

Note 2 Operating Deficit

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

	2006-07 £000	2005-06 £000
Depreciation of fixed assets	1,908	1,958
Hire of plant and equipment	2,370	1,224
Operating lease rentals:		
Land and buildings	105	224
Other	2,272	2,251
Auditors' remuneration – audit work	60	61
Auditors' remuneration – non-audit work	-	-
Shared central services	4,402	4,771

Expenditure includes the cost of shared central services provided to Forest Enterprise Scotland. Shared central services are defined as those where a single provider is considered the best solution, in terms of practicality, cost or the needs of stakeholders although primary direction comes from the countries. Six areas of work are identified as shared services:

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

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

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

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

2.2 Income and expenditure from management and development of the estate included in the operating deficit are:

	Income £000	Expenditure £000	2006-07 Net £000	2005-06 Net £000
Continuing operations				
Estate Management	5,151	2,119	3,032	1,135
Other	1,159	1,266	(107)	46
Impairment on OME	-	8	(8)	(18)
	<u>6,310</u>	<u>3,393</u>	<u>2,917</u>	<u>1,163</u>
Discontinued operations				
Forest Holidays	99	172	(73)	5
Impairment on Forest Holidays cabins	-	-	-	(131)
	<u>99</u>	<u>172</u>	<u>(73)</u>	<u>(126)</u>
Total	<u>6,409</u>	<u>3,565</u>	<u>2,844</u>	<u>1,037</u>

In May 2006, the Forestry Commission entered into a partnership with the Camping and Caravanning Club to take over management of its Forest Holidays business. This has resulted in a significant change to the way in which the Forestry Commission will account for its interest in Forest Holidays. As Forest Enterprise Scotland does not exercise in-year budgetary control over the partnership, then, in accordance with FReM 2.4, the investment will be treated as a fixed asset investment. During 2006-07, no income was received from the investment in the partnership but a loss on disposal of £588,000 is included in sale of properties in note 4. More details on the financial implications of the transfer of the Forest Holidays is disclosed in note 7.

Estate Management reflects the net cost of managing the non-forested estate which comprises houses, farms, agricultural land and all other lettings. It includes surplus assets which are disposed of wherever possible.

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

Note 3 Staff numbers and costs

3.1 Employees and costs

The average number of whole time equivalent persons employed in Forest Enterprise Scotland during the year was 931 (916 in 2005-06). In addition, the number of whole time equivalents employed as temporary \ agency staff was 3 (3 in 2005-06).

The aggregate payroll costs were as follows:

	2006-07 £000	2005-06 £000
Salaries	21,822	20,778
Social Security Costs	1,591	1,524
Other pension costs	3,783	3,431
Temporary/Agency	65	69
	<u>27,261</u>	<u>25,802</u>
Less recoveries in respect of outward secondments	(37)	(20)
	<u>27,224</u>	<u>25,782</u>

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

For 2006-07, employers' contributions of £3,775,000 were payable to the PCSPS (2005-06 £3,426,000) at one of four rates in the range 17.1% to 25.5% of pensionable pay, based on salary bands (the rates in 2005-06 were between 16.2% and 24.6%). The scheme's Actuary reviews employer contributions every four years following a full scheme valuation. From 2007-08, the salary bands will be revised and the rates will remain the same. The contribution rates are set to meet the cost of the benefits accruing during 2006-07 to be paid when the member retires, and not the benefits paid during this period to existing pensioners.

Employees can opt to open a **partnership** pension account, a stakeholder pension with an employer contribution. Employers' contributions of £8,000 were paid to one or more of a panel of three appointed **stakeholder** pension providers. Employer contributions are age-related and range from 3% to 12.5% of pensionable pay. Employers also match employee contributions up to 3% of pensionable pay. In addition, employer contributions of £400, 0.8% of pensionable pay, were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees.

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

2 individuals retired early on ill health grounds; the total additional accrued pension liabilities in the year amounted to £2,200.

Note 4 Sale of properties

	2006-07 £000	2005-06 £000
Income	4,235	36
Book value	4,775	54
	<u>(540)</u>	<u>(18)</u>
Disposal costs		
External costs	(350)	(305)
Administration expenses	(396)	(298)
	<u>(746)</u>	<u>(603)</u>
Surplus/(deficit) on sale of properties	<u>(1,286)</u>	<u>(621)</u>

Note 5 Notional cost of capital

Notional cost of capital based on 3.5% of average total assets less liabilities employed in 2006-07 amounted to £1,421,000 (£1,247,000 in 2005-06).

Note 6 Tangible fixed assets

	Forest Holidays Land £000	Dwellings and Other Buildings £000	Forest Holidays Buildings £000	VME £000	OME £000	Assets Under Construction £000	Total £000
Valuation:							
At 1 April 2006	1,695	22,358	3,075	10,869	1,428	725	40,150
Additions	-	3,735	-	897	33	1,899	6,564
Transfers	-	1,966	-	(7)	(3)	(1,950)	6
Disposals	(1,695)	(360)	(3,075)	(924)	(1,107)	-	(7,161)
Write-off	-	-	-	-	-	(32)	(32)
Revaluation	-	2,990	-	-	-	-	2,990
Impairment	-	-	-	-	(14)	-	(14)
At 31 March 2007	-	30,689	-	10,835	337	642	42,503
Depreciation:							
At 1 April 2006	-	2,541	290	7,132	1,191	-	11,154
Provided during year	-	732	12	1,069	95	-	1,908
Transfers	-	3	-	(6)	(3)	-	(6)
Disposals	-	(53)	(302)	(792)	(1,080)	-	(2,227)
Revaluation	-	360	-	-	-	-	360
Impairment	-	-	-	-	(6)	-	(6)
At 31 March 2007	-	3,583	-	7,403	197	-	11,183
At 31 March 2007	-	27,106	-	3,432	140	642	31,320
At 1 April 2006	1,695	19,817	2,785	3,737	237	725	28,996
Asset financing:							
Owned	-	27,106	-	3,432	140	642	31,320
Net book value at 31 March 2007	-	27,106	-	3,432	140	642	31,320

Dwellings and other buildings were valued at £15,191,000 as at 31 March 2002 by professionally qualified land agents employed by the Forestry Commission. This was on the basis of Open Market Value, Existing Use Value, Depreciated Replacement Cost Value or Discounted Cash Flow Value as appropriate under the RICS guidance. The properties were scheduled to be re-assessed as at 31 March 2005 in accordance with the three-yearly interval stated in the previous accounting policy. To bring the policy in line with UK GAAP, professional valuations of non-forest land and dwellings and other buildings will be undertaken on a five-yearly basis. The first five-yearly valuation will be at 1 April 2008, to coincide with the next full revaluation of the Forest Estate. Annual updates in the intervening years are based on indices provided by the District Valuer.

Buildings assets comprise both freehold and leasehold assets.

Forestry vehicles, machinery and equipment (VME) was valued at £4,056,000 as at 31 March 2005 by professionally qualified staff employed by the Forestry Commission based on valuations provided by internal professionally qualified staff for specialist forestry machinery and indices provided by the Office for National Statistics for all other assets. The next full revaluation is due as at 1 April 2010 with annual updates in the intervening years based on indices provided by the Office for National Statistics. For 2006-07, the movement in the index was immaterial and no revaluation was undertaken.

Office machinery and equipment (OME) was restated to a current value of £140,000 as at 31 March 2007 using an index provided by the Office for National Statistics.

Note 7 Fixed asset investments

In May 2006, the Forestry Commission entered into a partnership with the Camping and Caravanning Club to take over management of its Forest Holidays business. This has resulted in a significant change to the way in which the Forestry Commission will account for its interest in Forest Holidays. As the investment in the partnership is outside the departmental boundary and Forest Enterprise Scotland does not exercise in-year budgetary control over the partnership, then, in accordance with FReM 2.4, the investment will be treated as a fixed asset investment.

The net book value of Forest Enterprise Scotland's cabin and campsite land and buildings transferred to the partnership was £4,468,000. In return, Forest Enterprise Scotland received £3,880,000 comprising

- a fixed asset investment valued at nil at 31 March 2007;
- as lessors of the sites to the partnership, Forest Enterprise Scotland will show a long term debtor balance on its balance sheet to represent the net present value of the future rental payments over 75 years due by the partnership company totalling £2,469,000; and
- a long term long debtor of £1,411,000 with the capital and interest due to be repaid in five instalments commencing year end 31 March 2012.

Forest Enterprise Scotland's share of the net assets and results is summarised below:

	£000
Net assets at 31 March 2007	2,195
Turnover	664
Deficit for the year (before financing)	54

Note 8 Stocks

	2006-07	2005-06
	£000	£000
Timber	2,188	2,625
Plants and seed	607	662
Consumable materials, supplies and livestock	581	551
	<u>3,376</u>	<u>3,838</u>

Note 9 Debtors

9(a) Analysis by type

	2006-07 £000	Restated 2005-06 £000
Amounts falling due within one year:		
Trade debtors	8,345	6,228
Other debtors	10	38
House purchase loans to employees	18	17
Partnership lease	81	-
Prepayments and accrued income	2,918	2,948
	<u>11,372</u>	<u>9,231</u>
Amounts falling due after more than one year:		
Partnership loan	1,411	-
Partnership lease	2,307	-
House purchase loans to employees	177	104
	<u>3,895</u>	<u>104</u>
	<u>15,267</u>	<u>9,335</u>

Forest Enterprise Scotland had house purchase loans totalling £195,000 outstanding at 31 March 2007 relating to 20 employees.

9(b) Intra-Government Balances

	Amounts falling due within one year		Amounts falling due after more than one year	
	£000		£000	
	2006-07	2005-06	2006-07	2005-06
Balances with other central government bodies	69	399	-	-
Balances with local authorities	101	298	-	-
Balances with NHS Trusts	-	-	-	-
Balances with public corporations and trading funds	2	38	-	-
Intra-government balances	<u>172</u>	<u>735</u>	-	-
Balances with bodies external to government	11,200	8,496	3,895	104
Total debtors at 31 March	<u>11,372</u>	<u>9,231</u>	<u>3,895</u>	<u>104</u>

Note 10 Cash at banks and in hand

	2006-07 £000	2005-06 £000
Cash in hand	3	2
	<u>3</u>	<u>2</u>

Note 11 Creditors: amounts falling due within one year

11(a) Analysis by type

	2006-07 £000	2005-06 £000
Amounts falling due within one year:		
Trade creditors	2,810	2,940
Other creditors	24	8
Accruals and deferred income	1,835	1,363
	<u>4,669</u>	<u>4,311</u>

11(b) Intra-Government Balances

	Amounts falling due within one year		Amounts falling due after more than one year	
	£000		£000	
	2006-07	2005-06	2006-07	2005-06
Balances with other central government bodies	1	2	-	-
Balances with local authorities	43	7	-	-
Balances with NHS Trusts	-	-	-	-
Balances with public corporations and trading funds	1	53	-	-
Intra-government balances	45	62	-	-
Balances with bodies external to government	4,624	4,249	-	-
Total creditors at 31 March	4,669	4,311	-	-

Note 12 Provisions for liabilities and charges

	Early departure costs	Public legal claims	Other legal Claims	Total
	£000	£000	£000	£000
Balance at 1 April 2006	596	-	412	1,008
Provided in the year	220	30	107	357
Provisions not required written back	(1)	-	(171)	(172)
Provisions utilised in the year	(197)	-	(65)	(262)
Unwinding of discount	6	-	-	6
Balance at 31 March 2007	624	30	283	937

12(a) Early departure costs

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

12(b) Legal claims

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

Legal claims which may succeed but are less likely to do so or cannot be estimated reliably are disclosed as contingent liabilities in Note 19. Public legal claims are those claims from the public for personal injury or damage caused to property, and other legal claims are for compensation for injury to employees.

Note 13 General fund

	2006-07 £000	2005-06 £000
Balance at 1 April	28,273	27,500
Net deficit for the year	(29,258)	(27,826)
Notional cost of capital	1,421	1,247
Cash deficit funded by Forestry Commission Scotland	32,332	27,476
Transfers of fixed assets from/to other Forestry Bodies	12	(51)
Transferred to general fund (realised element of revaluation reserve)	800	158
Timing between accrual and cash VAT	382	(122)
Non-cash inter-country transfers	(11)	(109)
	5,678	773
Balance at 31 March	33,951	28,273

Note 14 Revaluation reserve

	2006-07 £000	2005-06 £000
Balance at 1 April	8,579	7,177
Arising on revaluation during the year:		
Forest Holidays buildings	-	143
Dwellings and other buildings	2,630	1,402
VME	-	15
	<u>2,630</u>	<u>1,560</u>
Realised revaluation surplus	(800)	(158)
Balance at 31 March	<u>10,409</u>	<u>8,579</u>

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

	2006-07 £000	2005-06 £000
Dwellings and other buildings	(800)	(150)
VME	-	(8)
	<u>(800)</u>	<u>(158)</u>

Note 15 Notes to the cash flow statement

	2006-07 £000	2005-06 £000
15a Reconciliation of net deficit to operating cash flows		
Net deficit for the year	(29,258)	(27,826)
Notional cost of capital	1,421	1,247
Depreciation charges	1,908	1,958
(Profit)/loss on sale of properties	540	18
Fixed asset write-off	32	-
Impairment of tangible fixed assets	8	149
(Profit)/loss on sale of other tangible fixed assets	29	(133)
Timing between accrual and cash VAT	382	(122)
Non-cash inter-country transfers	(11)	(109)
(Increase)/decrease in stocks	462	(643)
(Increase)/decrease in debtors	(5,932)	353
less movements in debtors relating to items not passing through I&E	3,799	-
Increase/(decrease) in creditors	358	576
Use of provisions	(71)	(18)
Net cash outflow from operating activities	<u>(26,333)</u>	<u>(24,550)</u>

	2006-07 £000	2005-06 £000
15b Analysis of capital expenditure and financial investment		
Payments to acquire tangible fixed assets	(6,564)	(3,290)
Receipts from sale of properties	355	36
Receipts from sale of other tangible fixed assets	130	328
Lease repayments	81	-
Net Capital	<u>(5,998)</u>	<u>(2,926)</u>

2005-06
£000

15c Analysis of financing

Deficit funded by Forestry Commission Scotland	32,332	27,476
Financing	<u>32,332</u>	<u>27,476</u>

Note 16 Capital commitments

Amounts contracted for but not provided in the accounts amounted to £70,000 (2005-06: £1.4 million) and relates to outstanding work on building projects at the Queens View Visitor Centre at Tay Forest District (£31,000), an extension to Aberdeenshire Forest District Office (£28,000) and the Go Ape building at Cowal and Trossachs (£11,000).

Note 17 Commitments under leases

Operating leases

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

	2006-07 £000	2005-06 £000
Land and building leases expiring within:		
One year	4	11
Two to five years	24	-
More than five years	77	213
	<u>105</u>	<u>224</u>

	2006-07 £000	2005-06 £000
Other leases expiring within:		
One year	690	45
Two to five years	1,535	2,035
More than five years	47	66
	<u>2,272</u>	<u>2,146</u>

Note 18 Other financial commitments

There were no other financial commitments as at 31 March 2007. (Nil at 31 March 2006).

Note 19 Contingent liabilities disclosed under FRS 12

Legal claims have been made from the public totalling £1,235,000 pertaining to accidents and damage to properties. Legal advice indicates that the claims can be successfully resisted and that no damages are likely to be awarded.

Note 20 Related party transactions

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

In addition, Forest Enterprise Scotland has had various material transactions with other government departments and other central government bodies. The main entities within government with which Forest Enterprise Scotland has had dealings are Scottish Executive and its Agencies, Paymaster General's Office and HM Revenue and Customs.

During the year, Forest Enterprise Scotland entered into the following material transactions involving the non-executive Commissioners of the Forestry Commission:-

Martin Gale, a non-executive Forestry Commissioner, is Chairman of Tilhill Forestry, Vice President of UPM Corporation and a non-executive Director of BSW Timber plc. UPM Corporation is the parent company of Caledonian Paper and Tilhill Forestry Ltd. Tilhill Forestry has an interest in BSW Timber plc.

The value of purchases from Forest Enterprise Scotland was:

BSW Timber plc	£3,925,000
Caledonian Paper	£2,538,000
Tilhill Forestry	£2,823,000

Amounts owing to Forest Enterprise Scotland at 31 March 2007 was:

BSW Timber plc	£942,000
Caledonian Paper	£276,000
Tilhill Forestry	£433,000

Michael Ansell, a member of the Forest Enterprise Scotland Management Board, is the owner of Braidenoch which received forestry grants totalling £500.

The partner of Stephanie Atwell, a member of the Forest Enterprise Scotland Management Board, received a forestry grant of £8,600 through his business HM Paton & Co.

Note 21 Losses statement

Losses totalled £33,000 from 29 cases (£11,000 from 14 cases in 2005-06).
Special payments totalled £275,000 from 36 cases (£161,000 from 40 cases in 2005-06).

Note 22 Post balance sheet events

These financial statements were authorised for issue on 11 July 2007 by the Accountable Officer.

Note 23 Financial instruments

FRS 13, *Derivatives and Other Financial Instruments*, requires disclosure of the role which financial instruments have had during the period in creating or changing the risks an entity faces in undertaking its activities. Because of the nature of its activities and the way in which the agency is financed, Forest Enterprise 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 agency has no powers to borrow or invest surplus funds and financial assets and liabilities are generated by day-to-day operational activities and are held not to change the risks facing the department in undertaking its activities.

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

Liquidity risk

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

Interest-rate risk

Forest Enterprise Scotland is not exposed to interest-rate risk.

Foreign currency risk

Forest Enterprise 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 9. Fair value for the provisions shown in Note 11 is not significantly different from book value since, in the calculation of book value, the expected cash flows have been discounted by the Treasury rate of 3.5% in real terms.

**FOREST ENTERPRISE SCOTLAND
DIRECTION BY THE SCOTTISH MINISTERS
in accordance with section 45(1) of the Forestry Act 1967**

1. The Scottish Ministers, in pursuance of section 45(1) of the Forestry Act 1967, hereby give the following direction.
2. The Forestry Commission shall prepare accounts for Forest Enterprise Scotland for the financial year ended 31 March 2006 and subsequent years, comprising:
 - (a) an annual report;
 - (b) a statement of Accountable Officer's responsibilities;
 - (c) a statement on internal control;
 - (d) an income and expenditure account;
 - (e) a statement of total recognised gains and losses;
 - (f) a balance sheet; and
 - (g) a cash flow statement,

including such notes as may be necessary for the purposes referred to in the following paragraphs.

3. The accounts shall give a true and fair view of the income and expenditure, and cash flows for the financial year, and the state of affairs as at the end of the financial year.
4. Subject to this requirement, the accounts shall be prepared in accordance with:
 - (a) generally accepted accounting practice in the United Kingdom (UK GAAP) having regard for the requirements of the *Government Financial Reporting Manual*; and
 - (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 Scotland and are in force for the financial year for which the accounts are to be prepared.

5. Additional requirements are set out in **Schedule 1** attached.
6. Clarification of the application of the accounting and disclosure requirements of the Companies Act and accounting standards is given in **Schedule 2** attached.
7. The **income and expenditure account** and **balance sheet** shall be prepared under the historical cost convention modified by the inclusion of:
 - a. buildings and associated land at their existing use value where a market exists, otherwise at depreciated replacement cost;
 - b. machinery, plant and equipment at current replacement cost;
 - c. commercial recreation assets at their existing use value; and
 - d. 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.
8. This direction shall be reproduced as an appendix to the accounts and supersedes that dated 6 July 2005.



Signed by the authority of the Scottish Ministers
Dated 11 May 2006

Schedule 1

ADDITIONAL REQUIREMENTS

Annual Report

1. The Annual Report shall be prepared in accordance with the provisions of the *Government Financial Reporting Manual*.

Income and Expenditure Account

2. The income and expenditure account shall be in a form which discloses the information described below, as the recommended formats described in Schedule 4 to the Companies Act are not appropriate for Forest Enterprise Scotland:

a. under “operating income”:

- sales of timber
- other forest sales
- other activities

b. under “operating expenditure (by activity)”:

- harvesting and haulage of timber
- restocking after felling
- forest roads
- forest maintenance and protection
- other activities

c. the resulting operating surplus/deficit shall be shown as a separate heading

d. under “recreation, conservation and heritage”:

- income
- expenditure

e. giving operating surplus/deficit net of recreation, conservation and heritage

f. the surplus/deficit arising from the sale of properties and the notional cost of capital

g. the “net surplus/deficit for the year” which shall be transferred to the general fund.

3. Minor changes may be made to the headings in the accounts without the approval of Scottish Ministers.

Notes to the Accounts

4. The notes to the accounts shall include, inter alia, details of the total income, expenditure and operating result for each of the operations shown within “other activities”, together with explanatory notes of the financial objectives set and performance achieved.

Schedule 2

APPLICATION OF THE ACCOUNTING AND DISCLOSURE REQUIREMENTS OF THE COMPANIES ACT AND ACCOUNTING STANDARDS

Companies Act

1. The disclosure exemptions permitted by the Companies Act shall not apply to Forest Enterprise Scotland unless specifically approved by Scottish Ministers.
2. Forest Enterprise Scotland is not required to provide the historical cost information described in paragraph 33(3) of Schedule 4 to the Companies Act.

Accounting Standards

3. Forest Enterprise Scotland is not required to include a note showing historical cost profits and losses as described in FRS 3.