

# Accounts for the year ended 31 March 2008



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## Annual Report for the year ended 31 March 2008

### 1. Basis of accounts

These accounts are prepared in accordance with a direction given by HM Treasury in pursuance of section 7 of the Government Resources and Accounts Act 2000.

## Management Commentary

### 2. Status

Forest Research became an Executive Agency of the Forestry Commission on 1 April 1997. It undertakes the major part of the Commission's research and development programmes as well as providing survey, monitoring and scientific services.

Forest Research remains part of the Forestry Commission, which is a cross border Government Department responsible for forestry throughout Great Britain. The relationship between Forest Research, the Forestry Commissioners and Forestry Ministers is described in the Framework Document, revised and published in September 2003.

Prior to April 1997, Forest Research was managed as a Division of the Forestry Commission and its assets and financial transactions were included in the departmental accounts presented in the Forestry Commission Annual Report and Accounts.

From 1 April 1997, the Agency assumed ownership of and responsibility for the assets and liabilities appropriate to the research activity, which were included in the Forestry Commission Statement of Assets and Liabilities as at 31 March 1997. It also assumed ownership of the building assets it occupies, which were previously owned and managed on behalf of the Forestry Commission by the Forest Enterprise agency, with appropriate intradepartmental charges made, and recorded on the Forest Enterprise balance sheet as at 31 March 1997.

Two organisational reviews took place during 2002 and 2003 that impacted on the Agency's status and operational arrangements.

In line with normal arrangements for agencies, Forest Research underwent a Quinquennial Review, stage one of which was completed in January 2002, whilst between May 2001 and August 2002 an interdepartmental group carried out a review of the Forestry Commission. This reviewed the devolution arrangements for delivering sustainable forestry policies in England, Scotland and Wales and the UK's international forestry commitments.

On conclusion of stage one of the Forest Research Quinquennial Review, Forestry Ministers decided that the Agency should retain its executive agency status for a further five years. The devolution review concluded that Forest Research should continue as a GB-wide agency of the Forestry Commission but new arrangements should be set up, with an enhanced role for the devolved administrations through the National Offices in England, Scotland and Wales in determining research priorities and specifying programmes.

The stage two report of the Agency's Quinquennial Review, which addressed the issues on implementing the outcomes of the stage one review and the devolution review, was approved by Ministers and a new Framework Document was put in place in September 2003.

Under the Framework Document, Forest Research is funded from the sale of its services to both the Forestry Commission and external customers. Any annual surplus or deficit is counted in the Forestry Commission's net funding requirement.

Forest Research has been designated a GB entity. For Resource Accounting purposes Forest Research is within the departmental boundary. Its accounts are consolidated into the Forestry Commission GB/England accounts.

### 3. Strategy

The strategic aims and objectives of the Agency have been set to assist the Forestry Commission achieve its GB objective to take the lead in development and promotion of sustainable forest management and to support its achievement nationally.

These are discussed in detail in the Agency's corporate plan, which is available on the Forestry Commission website and the Forest Research website.

### 4. Relationships with stakeholders

As most aspects of forestry are devolved activities, strong relationships between the wider Forestry Commission (FC) and the devolved administrations are critical. Summer 2005 saw the launch of FC's Science and Innovation Strategy, with an increased focus on the role of the FC National Offices and the Northern Irish Forestry Service to shape the research agenda and to disseminate results via the creation of Programme Advisory Groups involving country stakeholders. Consultations associated with this process involved the participation of many of our key stakeholders, focused around meetings held during the year. The Agency subsequently appointed three Research Liaison Officers, to support the process of research commissioning and dissemination on an ongoing basis.

As an applied research institute, the Agency's relationships with the forestry and land management industries are also of paramount importance. The Agency has recently strengthened its industrial links in a number of ways.

- The strengthening of its knowledge transfer expertise, through monies awarded by 'Public Sector Research Establishment 3' innovation capacity building fund, is enabling the Agency to take a more pro-active role in industry-led innovations.
- The Agency has become a member of the English Forest Industries Partnership, which has completed a sector mapping study.
- The Agency's close association with the Scottish Forest Industries Cluster has resulted in full involvement in the development of the European Forestry Technology Platform and its associated strategic research agenda, which is being taken forward in the Framework 7 programme during 2007-2013.

### 5. Aims and objectives

The aim of Forest Research is set out in the Framework Document. It is to support and enhance forestry and its role in sustainable development, by providing high quality research and development in a well-run organisation.

The objectives of Forest Research are listed on page 9 in the Annual Report.

## Current and future development and performance

### 6. Operating review

The evidence base required to deliver forestry policies changes rapidly, requiring FR to be responsive in order to meet emerging customer needs for research, advice and scientific services. FR published a Development Strategy in September 2006 and the key objectives which it sets out are to match skills to customer needs, to provide innovation, to increase scientific and business excellence, to ensure a range of funding sources and to improve the links with other organisations.

During 2007–08 the system by which the FC specifies its research needs was updated by changing the structure and composition of the Programme Advisory Groups (PAGs) and by the introduction of Contract Proposals. FR staff provided contract proposals for all FC-funded programmes and these were reviewed and approved by the PAGs during the Autumn of 2007.

During the year the expertise and skills required to match the needs, particularly of non-FC customers, were reviewed by six Priority Area Working Groups. This has resulted in ongoing support of FR's Biomass Energy Centre and the establishment of a new Urban Regeneration and Greenspace Centre. In addition it has been recognised that much of FR's research addresses climate change, more or less directly, and climate change research within FR is now co-ordinated by a research hub linked to the FC's Climate Change Strategy Group.

The Social and Economic Research Group, Timber Quality Programme, Scottish Native Woodland Survey and second National Inventory of Woodland and Trees have also been areas of particular activity during the year. Demand for research and advice on silvicultural options, tree health, on biodiversity and habitat networks has remained strong. The 2007–08 year is the middle year of FR's Public Sector Research Exploitation project and this has allowed us to build our expertise and activity in commercialisation and management of intellectual property. We are now seeing the benefits of this approach in a number of specific areas.

## 7. Financial review

This is Forest Research's 11th year of operation as an Agency. Forest Research produced a net operating deficit of £887,000 on its Income and Expenditure Account, excluding the notional cost of capital. A comparison of income and expenditure with the previous year's results shows that:

- staff costs increased by £68,000 (0.7%)
- other management costs decreased by £65,000 (2.6%)
- materials and services costs increased by £406,000 (13.2%), primarily resulting from the employment of contractors to meet contractual commitments
- income from Forestry Commission customers decreased by £73,000 (0.6%)
- income from external customers decreased by £859,000 (36.0%). This confirmed the recommendations of a review which identified the need to improve financial and management information systems and reporting
- the notional cost of capital increased by £36,000 (7.6%)

The net deficit for the year after the cost of capital charge of £511,000 and depreciation was £1,398,000, representing a cost recovery rate of 91.3%, compared with 99.9% in 2006–07.

After adjusting the total deficit for items not involving the movement of cash and for capital expenditure, bank account movements and income, the net cash outflow for the year was £392,000, which was received from the Forestry Commission.

Additions to fixed assets in the year were £828,000.

## 8. Financial objective – Key Performance Indicators (KPIs)

Forest Research's primary financial objective set out in the Framework Document is to recover the full economic costs, including cost of capital, of its operations from the sale of services to customers. In 2007–08 the recovery rate was 91.3%.

Performance against other operational, scientific and financial KPIs is reported in the main body of the Annual Report and Accounts. FR achieved £1.5m of income from non-FC customers against the KPI target of £2.7m.

## 9. Events since the balance sheet date

There were no significant post-balance sheet events to record except the appointment of Dr James Pendlebury as Chief Executive and Agency Accounting Officer with effect from 16 June 2008.

## 10. The future

As the principal provider of research and science-base to the Forestry Commission and to UK forestry, FR is part of the wider science and technical development community, maintaining world class expertise and excellence in applied forest research. We have put arrangements in place to ensure that our work fully supports the forestry strategies in England, Scotland and Wales. Priorities during the coming year are:

- To maintain the progress made in implementing the recommendations of the Priority Area Working Groups and Finance Review which reported during 2007–08.
- To give close consideration to the co-ordination of climate change and forestry research and the integration of FR work with FC requirements on climate change.
- To maintain the progress being made with commercialisation and IP management, and in this area to develop joint work with other parts of the FC.

FR will continue to lead research on sustainable forestry and climate change which cut across its programmes of social, economic and environmental research. There will be an emphasis on customer care and we will also look closely at efficiency and delivery, participating fully in the FC's GreenerWays programme.

## 11. Supplier payment policy

Forest Research observes the principles of the Late Payment of Commercial Debts (Interest) Act 1998. 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. An analysis for 2007–08 indicates that 100% of payments to suppliers, including those made using the Government Procurement Card, were paid within the due date. Arrangements for handling complaints on payment performance are notified to suppliers on orders. No interest was paid under the Late Payment of Commercial Debts (Interest) Act 1998.

## 12. Employment policies

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

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

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

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

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

Further information on the employment of persons with disabilities, the provision of information to, and consultation with, employees, and the promotion of equal opportunities is available on request from the Human Resources unit of the Forestry Commission.

### 13. Management

The Ministers who had responsibility for the Forestry Commission, including Forest Research, during the year were:

Rt. Hon. David Miliband MP	<i>Secretary of State, Department for Environment, Food and Rural Affairs (until 27 June 2007)</i>
Barry Gardiner MP	<i>Parliamentary Under-Secretary (Commons), Department for Environment, Food and Rural Affairs (until 27 June 2007)</i>
Rt. Hon. Hilary Benn MP	<i>Secretary of State, Department for Environment, Food and Rural Affairs (from 28 June 2007)</i>
Joan Ruddock MP	<i>Parliamentary Under-Secretary of State (Climate Change, Biodiversity and Waste), Department for Environment, Food and Rural Affairs (from 28 June 2007)</i>
Phil Woolas MP	<i>Minister of State, Department for Environment, Food and Rural Affairs (from 28 June 2007)</i>

Members of the Executive Board of Forest Research during the year were:

Jim Lynch	<i>Chief Executive (until 30 September 2007)</i>
Peter Freer-Smith	<i>Research Director (Acting Chief Executive from 1 October 2007)</i>
Ken Charles	<i>Head of Human Resources and Administration</i>
Tony Cornwell	<i>Finance Director (until 4 January 2008)</i>
Sandra Smith	<i>Finance Director (from 7 January 2008)</i>
Bill Mason	<i>Head of Forest Management Division</i>
Sam Evans	<i>Head of Biometrics, Surveys and Statistics Division (until 1 June 2007)</i>
Helen Mckay	<i>Acting Head of Biometrics, Surveys and Statistics Division (from 2 July 2007)</i>
Hugh Evans	<i>Head of Tree Health Division</i>
Chris Quine	<i>Head of Ecology Division</i>
Andy Moffat	<i>Head of Environmental and Human Sciences Division (and Acting Research Director from 1 October 2007)</i>
Xanthe Christophers	<i>Communications Director</i>
Janet Dutch	<i>Head of Technical Services Unit (from 1 October 2007)</i>
Alison Melvin	<i>Commercial Director (from 1 October 2007)</i>
Wilma Harper	<i>Head of Corporate and Forestry Support (from 1 October 2007)</i>

The Chief Executive is appointed following public advertising of the post. The term of the appointment, and provision for its termination, are governed by the Civil Service Commissioners' Recruitment Code.

Remuneration of board members who hold senior staff group posts is determined by the Forestry Commission's Senior Pay Committee in accordance with guidelines prescribed by the Cabinet Office. Other board members' remuneration is determined by the standard processes set out in the Forestry Commission's pay and grading system.

Further details on remuneration are set out in the Remuneration Report (page 82).

#### **14. Pensions**

Information on pensions is contained in the Remuneration Report and accounting policy note 1.14.

#### **15. Personal data related incidents**

There were no protected personal data related incidents reported for Forest Research in 2007–08 or previous financial years. Forest Research will continue to monitor and assess its information risks in order to identify and address any weaknesses and ensure continued improvement of its systems. Further information on the handling of information risk is contained in the Statement on Internal Control.

#### **16. Auditors**

These accounts are prepared in accordance with a direction given by the Treasury in pursuance of Section 7 of the Government Resources and Accounts Act 2000. They are audited by the Comptroller and Auditor General. The fee for statutory audit services in respect of these accounts was £25,000. No further assurance or other non-audit services were provided.

#### **17. Disclosure of audit information to the auditors**

So far as I am aware, there is no relevant audit information of which the Forest Research auditors are unaware. I have taken all the steps that I ought to have taken to make myself aware of any relevant audit information and to establish that the Forest Research auditors are aware of that information.

#### **Dr James Pendlebury**

Chief Executive and Agency Accounting Officer  
9 July 2008

## Remuneration Report

### **Remuneration policy**

Remuneration of board members who hold senior staff group posts is determined by the Forestry Commission's Senior Pay Committee in accordance with guidelines prescribed by the Cabinet Office. Details of membership of the Pay Committee are provided in the Remuneration Report of FC Great Britain/England. Other board members' remuneration is determined by the standard processes set out in the Forestry Commission's pay and grading system.

### **Employment contracts**

The Chief Executive is appointed following public advertising of the post. The term of the appointment, and provision for its termination, are governed by the Civil Service Commissioners' Recruitment Code. Jim Lynch was appointed Chief Executive on 1 July 2003 on a five-year contract (expiry date 30 June 2008) but stood down on 30 September 2007. Dr James Pendlebury was appointed as the new Chief Executive with effect from 16 June 2008.

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.

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

The performance of senior staff is monitored and reviewed through the appropriate Performance Management System (PMS) of the Forestry Commission. No element of remuneration is specifically subject to performance conditions although pay progression can be affected and performance bonuses, if awarded, are based on performance.

Further information about the work of the Civil Service Commissioners can be found at [www.civilservicecommissioners.gov.uk](http://www.civilservicecommissioners.gov.uk)

**Salary and pension entitlements** (information subject to audit)

The salary and pension entitlements of the members of the Forest Research Executive Board were as follows.

	2007-08		2006-07	
	Salary £000	Benefits in kind (to the nearest £100)	Salary £000	Benefits in kind (to the nearest £100)
Jim Lynch (up to 30 September 2007)	40-45 (full year equivalent 80-85)	-	80-85	-
Peter Freer-Smith	75-80	3,700	70-75	3,600
Ken Charles	45-50	-	45-50	-
Tony Cornwell (up to 4 January 2008)	45-40 (full year equivalent 45-50)	-	45-50	-
Sandra Smith (from 7 January 2008)	10-15 (full year equivalent 40-45)	-	00-00	-
Bill Mason	60-65	-	55-60	-
Sam Evans (until 1 June 2007) *	5-10 (full year equivalent 50-55)	-	45-50	-
Helen Mckay (from 2 July 2007)	50-55	-	00-00	-
Hugh Evans	60-65	1,500	55-60	1,500
Chris Quine	55-60	-	55-60	-
Andy Moffat	60-65	-	55-60	-
Xanthe Christophers	45-50	-	45-50	-
Janet Dutch (from 1 October 2007)	30-35	-	00-00	-
Alison Melvin (from 1 October 2007)	35-40	-	00-00	-

\* On special unpaid leave from 1 June 2007. Seconded to Defra from 28 April 2008.

The salary and pension entitlements of Wilma Harper, an Executive Board member, are borne and disclosed in the Forestry Commission GB/England Annual Report and Accounts 2007-08 as she is Head of Forestry and Support Services, Forestry Commission.

**Salary**

'Salary' includes basic salary, performance pay or bonus, overtime and any allowances subject to UK taxation.

**Benefits in kind**

The monetary value of benefits in kind covers any benefits provided by the employer and treated by the HM Revenue and Customs as taxable income. They are in respect of the Car Provision for Employees Scheme.

# Accounts

for the year ended 31 March 2008

## Pension benefits 2007-08 (information subject to audit)

	<b>Real increase in pension and related lump sum</b>	<b>Total accrued pension at age 60 at 31/3/08 and related lump sum</b>	<b>CETV @ 31/3/07</b>	<b>CETV @ 31/3/08</b>	<b>Real increase in CETV after adjustment for inflation and changes in market investment factors</b>	<b>Employer contribution to partnership pension account including risk benefit cover</b>
	£000	£000	£000	£000	£000	nearest £100
Jim Lynch*	0-2.5	5-7.5	107	121	13	-
Peter Freer-Smith	0-2.5 plus 5.0-7.5 lump sum	22.5-25 plus 67.5-70 lump sum	363	462	45	-
Ken Charles	0-2.5 plus 0-2.5 lump sum	22.5-25 plus 67.5-70 lump sum	513	559	18	-
Tony Cornwell*	0-2.5	5-7.5	119	133	10	-
Bill Mason	0-2.5 plus 0-2.5 lump sum	20-22.5 plus 62.5-65 lump sum	466	538	12	-
Sam Evans	0-2.5 plus 0-2.5 lump sum	5-7.5 plus 20-22.5 lump sum	97	87	2	-
Hugh Evans	0-2.5 plus 0-2.5 lump sum	25-27.5 plus 77.5-80 lump sum	553	642	16	-
Chris Quine	0-2.5 plus 2-2.5 lump sum	17.5-20 plus 55-57.5 lump sum	279	336	13	-
Andy Moffat	0-2.5 plus 2.5-5.0 lump sum	20-22.5 plus 62.5-65 lump sum	375	459	30	-
Xanthe Christophers	0-2.5	2.5-5	23	39	10	-
Helen McKay	0-2.5 plus 5-7.5 lump sum	15-17.5 plus 50-52.5 lump sum	287	373	38	-
Sandra Smith	0-2.5	0-2.5	0	3	2	-
Janet Dutch	0-2.5 plus 0-2.5 lump sum	5-7.5 plus 20-22.5 lump sum	99	123	7	-
Alison Melvin	0-2.5 plus 0-2.5 lump sum	2.5-5 plus 7.5-10 lump sum	47	63	9	-

CETV: Cash Equivalent Transfer Value.

\*Left during 2007-08.

## **Civil Service Pensions**

Pension benefits are provided through the Civil Service pension arrangements. From 30 July 2007, civil servants may be in one of four defined benefit schemes: either a 'final salary' scheme (classic, premium or classic plus), or a 'whole career' scheme (nuvos). These statutory arrangements are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under classic, premium, classic plus and nuvos are increased annually in line with changes in the Retail Prices Index (RPI). Members joining from October 2002 may opt for the appropriate defined benefit arrangement or 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, classic plus and nuvos. Benefits in classic accrue at the rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years' 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 hybrid with benefits in respect of service before 1 October 2002 calculated broadly as for classic and benefits for service from October 2002 calculated as in premium. In nuvos a member builds up a pension based on his pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.30% of their pensionable earnings in that scheme year and the accrued pension is uprated in line with RPI. In all cases members may opt to give up (commute) pension for lump sum up to the limits set by the Finance Act 2004.

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

The accrued pension quoted is the pension the member is entitled to receive when they reach pension age, or immediately on ceasing to be an active member of the scheme if they are already at or over pension age. Pension age is 60 for members of classic, premium and classic plus and 65 for members of nuvos.

Further details about the Principal Civil Service Pension Scheme can be found at the website [www.civilservice-pensions.gov.uk](http://www.civilservice-pensions.gov.uk)

## **Cash Equivalent Transfer Values**

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies. The figures include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the Civil Service pension arrangements. 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 takes account of the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

**Dr James Pendlebury**

Chief Executive and Agency Accounting Officer  
9 July 2008

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

Under Section 7 of the Government Resources and Accounts Act 2000 the Treasury has directed the Forestry Commission to prepare a statement of accounts for Forest Research for each financial year 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 Forest Research state of affairs at the year-end and of its income and expenditure, recognised gains and losses and cash flows for the financial year.

In preparing the accounts the Forestry Commission is required to comply with the requirements of the *Government financial reporting manual* and in particular to:

- observe the accounts direction, 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;
- prepare the financial statements on the going concern basis, unless it is inappropriate to assume that Forest Research will continue in operation.

The Director General of the Forestry Commission, as Principal Accounting Officer, has designated the Chief Executive of Forest Research as the Accounting Officer for the Agency. His relevant responsibilities as Agency Accounting Officer, including his responsibility for the propriety and regularity of the public finances and for the keeping of proper records, and for safeguarding the Agency's assets, are set out in the Accounting Officers' Memorandum, issued by the Treasury and published in *Managing public money* (The Stationery Office).

## Statement on Internal Control

### 1. Scope of responsibility

I was appointed Agency Accounting Officer with effect from 16 June 2008. Prior to this date the Agency Accounting Officer was Prof Peter Freer-Smith. In making this statement I am reliant upon the commitment and discipline he exercised in carrying out the role of Accounting Officer during the financial year and in assurances that he has provided to me. As Agency Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of Forest Research policies, aims and objectives, whilst safeguarding the public funds and departmental assets for which I am personally responsible, in accordance with the responsibilities assigned to me in *Managing public money*.

The 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, including the Agency. In practice, the Director General's role in relation to the Agency is delegated to the Chief Executive as Agency Accounting Officer.

The Chief Executive of the Agency is responsible, normally through the Director General, to the Forestry Commissioners for the management of the Agency. The Chief Executive has a right of access to the Commissioners, and to Forestry Ministers, and will meet them at least once a year. The Director General designates the Chief Executive as Agency Accounting Officer, responsible for the Agency's accounts and financial procedures, and for the proper, effective and efficient use of resources provided to the Agency within the terms of the Framework Document and in pursuit of the agreed Corporate Plan objectives and targets. The Chief Executive is a member of the Forestry Commission's Executive Board. In particular, the Chief Executive is responsible for:

- preparing the Agency's Corporate Plans and for achieving the targets set in them;
- appointment and organisation of the Agency's staff, and deployment of other resources to achieve the aims and objectives;
- maintaining financial and management information systems to assist in the monitoring and control of performance;
- preparing and submitting the Agency's Annual Report and Accounts;
- establishing and chairing an Agency Executive Board comprising senior managers within the Agency and the Head of Corporate and Forestry Support.

The Director General and Chief Executive are liable to be summoned to appear before the Public Accounts Committee to answer for their respective responsibilities. It will be for Ministers to decide who should represent them at other Parliamentary Committee hearings. In practice, where a Committee's interest is confined to the day-to-day operations of the Agency, Ministers will normally regard the Chief Executive as the person best placed to appear on their behalf.

### 2. The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Agency's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage

them efficiently, effectively and economically. The system of internal control has been in place in the Agency for the year ended 31 March 2008 and up to the date of approval of the Annual Report and Accounts, and accords with Treasury guidance.

### 3. Capacity to handle risk

The Agency has taken a positive approach to risk management, which it feels is entirely appropriate to its role and remit. Risk management is the responsibility of every member of staff in Forest Research. 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 Research's objectives. At every level of objective there is an equivalent delegation of responsibility of associated risk.

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

- Policies set by the Board of Commissioners and the Forest Research Executive Board. Written procedures support the policies where appropriate.
- Comprehensive regular reporting to the Executive Board designed to monitor key risks and their controls. Decisions to rectify problems are made at their regular meetings.
- Planning and budgeting systems used to set objectives, agree action plans and allocate resources. Progress towards meeting plan objectives is monitored regularly.

The Forestry Commission has a departmental Risk Improvement Manager who chairs a Risk Management Group comprising a risk champion from each part of the organisation and an Internal Audit representative. During the year, the Finance Director of Forest Research has acted as risk champion for the Agency, including responsibility for maintenance and enhancement of the risk register.

### 4. The risk and control framework

Forest Research 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 2008 and up to the signing of the accounts Forest Research has:

- Participated in the Commission-wide Risk Management Group (RMG), whose purpose is to ensure continued development of risk management within, and sharing of best practice across, the Commission. The RMG met on three occasions, in July and November 2007 and February 2008.
- Updated existing risk registers to reflect newly identified potential risks and appropriate control measures for agreement by Executive Board Members. This has included the further enhancement of the Risk Register methodology to clearly define inherent and residual risk.
- Continued to use and adapt the risk management software package working towards greater integration with Internal Audit and their planning.

An Internal Audit review in 2004-05 identified that the Forestry Commission needed fully developed contingency plans to effectively manage failure in key business systems. Responsibility for overseeing the wider approach has been co-ordinated by the Forestry Commission's Director of Finance via the RMG. It was recognised that a phased development would be required across the Forestry Commission and this has moved forward during the year. Business Continuity Plan templates for central shared services have been prepared, utilising the services of the Forestry Commission's external risk consultant, and are being implemented. In Forest

Research, some work had already taken place and specific plans were being incorporated into the risk register. Due to changes in management, and other competing priorities, work on this has been delayed and will now be taken forward in 2008–09.

During 2006–07 the Board of Commissioners reviewed the Forestry Commission's Audit Committee arrangements and recommended the setting up of separate Audit and Risk Committees (ARCs) in each of the three countries and in Forest Research. Interim arrangements were put in place for Forest Research using members of the existing Internal Control Committee (ICC) and representatives from Internal and External Audit, pending the resolution of membership and terms of reference. The interim Committee met in July 2007 and the full Committee in February 2008. Both meetings considered a range of reports from management and from internal and external audit.

The new ARC membership consists of two Non-Executives supported by the Agency Chief Executive and the Finance Director, the Head of Internal Audit and a National Audit Office representative. The Director General, as Principal Accounting Officer of the Forestry Commission, and his Director of Finance may attend any meeting. The ARC will advise the Agency Accounting Officer on:

- the strategic processes for risk, control and governance in the Agency;
- the Statement on Internal Control in the Agency;
- the accounting policies, the accounts and the annual report of the Agency, 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;
- 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 the Agency;
- anti-fraud policies and whistle-blowing processes.

The ARC will also periodically review its own effectiveness.

## 5. Data handling in Government

The Agency Accounting Officer needs comprehensive and reliable assurance from managers, internal audit and assurance providers that risks, including information risks, are being effectively managed.

In November 2007, the Government, in response to a number of high profile losses of personal information, launched a cross-government review of departments' procedures for the storage and use of data. The terms of reference for the work were to examine:

- the procedures in departments and agencies for the protection of data;
- their consistency with current government-wide policies and standards;
- the arrangements for ensuring that procedures are being fully and properly implemented, and to make recommendations on improvements that should be made.

The review reported in March 2008 and set out the mandatory process measures that all departments must put in place to ensure information risks are identified and managed. In line with the requirements, the Forestry Commission has taken the following steps to strengthen its handling of information risk and is developing its own action plan in line with revised guidance produced by the Cabinet Office and the Devolved Administrations.

- The Director General of the Forestry Commission has appointed his Finance Director, a member of the Forestry Commission's Executive Board, as the Senior Information Risk Owner (SIRO). The SIRO chairs an Information Systems Management Forum which meets on a formal and regular basis to co-ordinate the Forestry Commission's approach to information security and to monitor progress against an action plan. Regular updates will be provided to Forestry Commission Executive Board members.
- As a government department the Forestry Commission internally enforces the standards of the *Manual of protective security*. In addition, to meet Service Level Agreements with other government departments on whose behalf we carry out EU grant payments, we have a project under way to achieve compliance with ISO/IEC 27001, the standard for Information Security Management Systems. Compliance with the Standard will also ensure that we are in compliance with the Data Protection Act's Seventh principle that 'appropriate technical and organisational measures shall be taken against unauthorised or unlawful processing of personal data and against accidental loss or destruction of, or damage to, personal data.'

Information risk will be a standing agenda item for the ARC during 2008-09.

As reported in the Management Commentary, there were no protected personal data related incidents reported for Forest Research in 2007-08 or previous financial years.

## 6. Review of effectiveness

As Agency Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within the Agency who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the FR Executive Board and the Audit and Risk Committee. A plan to address weaknesses and ensure continuous improvement of the system is in place.

The Head of Internal Audit has prepared an annual report and assurance statement to me as the Agency Accounting Officer. The report includes an overall assessment of the adequacy and effectiveness of risk management, control and governance within the Agency. 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 Forest Research has continued to provide substantial assurance that material risks to the achievement of objectives are adequately managed, although some failings have been identified.

In September 2006 the Agency received the approval of the Forestry Commissioners for the implementation of a new Development Strategy. This concentrates on the achievement of sustainable growth and evolution in areas of high demand whilst continuing to deliver sound evidence-based research in support of FC policies.

A key element of the new strategy is the objective to deliver a 100% increase in non-Forestry Commission income by 2011-12 as a result of which external income is planned to increase to 27% of total income. Work on delivering this strategy continued apace during the year with the formation of groups to review opportunities in key research areas and a review of management information systems aimed at identifying the needs associated with the radical implications of the new strategy. However, the Agency's income from external customers fell by some 36% during 2007-08. I have been asked by the Director General to report on the cause of the fall in external income and the implications for achieving the longer term income target for the Agency.

# Accounts

## for the year ended 31 March 2008

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Under present arrangements, I rely on the organisational structure for managing risk with clear responsibilities at every level supported by a Risk Management Group whose role is to assist in the development of good risk management practice throughout the Forestry Commission.

**7. Significant internal control problems**

None were identified during the year.

**Dr James Pendlebury**

Chief Executive and Agency Accounting Officer

9 July 2008

## Forest Research Agency

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

I certify that I have audited the financial statement of the Forest Research Agency for the year ended 31 March 2008 under the Government Resources and Accounts Act 2000. These comprise the Operating Cost Statement and Statement of Total Recognised Gains and Losses, the Balance Sheet, the Cashflow Statement and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

#### **Respective responsibilities of the Agency, the Chief Executive and Auditor**

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

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

I report to you my opinion as to whether the financial statements give a true and fair view and whether the Financial Statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000. I report to you whether, in my opinion, certain information given in the Annual Report, which comprises a management commentary and a review of current and future development and performance, is consistent with the financial statements. I also report whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

In addition, I report to you if the Agency has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by HM Treasury regarding remuneration and other transactions is not disclosed.

I review whether the Statement on Internal Control reflects the Agency's compliance with HM Treasury's guidance, and I report if it does not. I am not required to consider whether this statement covers all risks and controls, or to form an opinion on the effectiveness of the Agency's corporate governance procedures or its risk and control procedures.

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

#### **Basis of audit opinion**

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements and the part of the Remuneration Report to be

# Accounts

## for the year ended 31 March 2008

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audited. It also includes an assessment of the significant estimates and judgements made by the Agency and Chief Executive in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the Agency's circumstances, consistently applied and adequately disclosed.

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

### **Opinions**

#### **Audit opinion**

In my opinion:

- the financial statements give a true and fair view, in accordance with the Government Resources and Accounts Act 2000 and directions made thereunder by HM Treasury, of the state of the Agency's affairs as at 31 March 2008, and of the net operating cost, recognised gains and losses and cashflows for the year then ended;
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000; and
- the information given within the Annual Report, which comprises management commentary and a review of current and future development and performance, is consistent with the financial statements.

#### **Audit opinion on regularity**

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

I have no observations to make on these financial statements.

#### **T.J. Burr**

Comptroller and Auditor General  
16 July 2008  
National Audit Office  
151 Buckingham Palace Road  
Victoria  
London SW1W 9SS

## Operating Cost Statement for the year ended 31 March 2008

	<b>Notes</b>	<b>2007-08</b>	2006-07
		<b>£000</b>	£000
<b>Income</b>			
Income from research, development and survey services			
Forestry Commission customers	2	<b>13,092</b>	13,165
Non-Forestry Commission Customers			
European Union		<b>65</b>	995
Other		<b>1,465</b>	1,394
<b>Total income</b>		<b>14,622</b>	15,554
<b>Expenditure</b>			
Staff costs	3	<b>9,585</b>	9,517
Other management costs	4	<b>2,439</b>	2,504
Materials and services	5	<b>3,485</b>	3,079
<b>Total expenditure</b>		<b>15,509</b>	15,100
<b>Net operating surplus/(deficit)</b>		<b>(887)</b>	454
Notional cost of capital	8	<b>(511)</b>	(475)
<b>Net (deficit) for the year</b>		<b>(1,398)</b>	(21)
<b>Net (deficit) transferred to General Fund</b>		<b>(1,398)</b>	(21)

## Statement of Total Recognised Gains and Losses for the year ended 31 March 2008

	<b>2007-08</b>	2006-07
	<b>£000</b>	£000
Net (deficit) for the year	<b>(1,398)</b>	(21)
Revaluation surplus for the year	<b>1,206</b>	1,333
<b>Total recognised gains/(losses)</b>	<b>(192)</b>	1,312

The notes on pages 98 to 112 form part of these accounts.

# Accounts

for the year ended 31 March 2008

## Balance Sheet as at 31 March 2008

	Notes	31 March 2008 £000	31 March 2007 £000
<b>Fixed assets</b>			
Tangible assets	6	<b>14,152</b>	12,802
Intangible assets	7	<b>159</b>	183
		<b>14,311</b>	12,985
<b>Debtors falling due after more than one year</b>	10	<b>44</b>	51
<b>Current assets</b>			
Stocks and Work in Progress	9	<b>951</b>	1,394
Debtors	10	<b>924</b>	658
Cash at banks and in hand	11	<b>275</b>	248
		<b>2,150</b>	2,300
<b>Creditors – amounts falling due within one year</b>	12	<b>(1,185)</b>	(660)
<b>Net current assets</b>		<b>965</b>	1,640
<b>Total assets less current liabilities</b>		<b>15,320</b>	14,676
<b>Provisions for liabilities and charges</b>	13	<b>(103)</b>	(170)
		<b>15,217</b>	14,506
<b>Taxpayers' Equity</b>			
General Fund	14	<b>7,086</b>	7,495
Revaluation Reserve	15	<b>8,131</b>	7,011
		<b>15,217</b>	14,506

### Dr James Pendlebury

Chief Executive and Agency Accounting Officer

9 July 2008

*The notes on pages 98 to 112 form part of these accounts.*

## Cash Flow Statement for the year ended 31 March 2008

		<b>2007-08</b>	2006-07
	<b>Notes</b>	<b>£000</b>	£000
<b>Net cash inflow/(outflow) from operating activities</b>	16a	<b>463</b>	958
Capital expenditure	16b	<b>(828)</b>	(580)
Net cash surplus/(deficit)		<b>(365)</b>	378
Financing – net cash transfer (to)/from Forestry Commission		<b>392</b>	(357)
<b>(Decrease)/Increase in cash in the period</b>		<b>27</b>	21

*The notes on pages 98 to 112 form part of these accounts.*

## Notes to the Accounts

### Note 1. Accounting Policies

#### 1.1 Form of Accounts

In accordance with Section 7 of the Government Resources and Accounts Act 2000, the accounts are drawn up in a format agreed and approved by Treasury. They are prepared in accordance with the *Government financial reporting manual* (FReM) issued by HM Treasury for 2007–08 accounts, under the historical cost convention modified by the inclusion of the valuation of assets.

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. The particular accounting policies adopted by the Agency are described below. They have been applied consistently in dealing with items considered material in relation to the accounts.

#### 1.2 Tangible Fixed Assets

Where the Agency is the principal beneficial user of assets of the Forestry Commission estate, they are treated as a fixed asset of the Agency although legal ownership is vested in the Forestry Ministers. Staff payroll costs and expenditure on materials and consumables related to systems development software, for general use within the Agency, are recognised as tangible fixed assets. There was no relevant in-house development activity in the year 2007–08.

The normal threshold for the capitalisation of assets is £1,500, but all IT equipment costing £250 or more is capitalised as a pooled asset.

#### 1.3 Valuation of Assets

Professionally qualified staff employed by the Forestry Commission undertake a full revaluation of non-forest land at five-yearly intervals coinciding with that for the forest estate. 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 will take place as at 1 April 2008.

Professionally qualified staff employed by the Forestry Commission undertake a full revaluation of dwellings and other buildings following the principles set out in the RICS Red Book. Valuation is on the basis of Open Market Value or Existing Use Value as appropriate under the RICS guidance. Dwellings and other buildings were scheduled to be re-assessed as at 31 March 2005 in accordance with the three-yearly interval stated in the previous accounting policy. It has been decided, however, to bring the policy in line with UK GAAP and undertake a professional valuation of dwellings and other buildings on a five-yearly basis. The first five-yearly valuation will be undertaken at 1 April 2008 to coincide with the next full revaluation of the Forest Estate. Between full valuations, dwellings and other buildings are restated to current value using appropriate indices provided by the District Valuer.

Other tangible and intangible fixed assets are revalued annually using a range of appropriate indices as provided by the Office for National Statistics.

Any surplus on revaluation is credited to the Revaluation Reserve. A deficit on revaluation is debited to the Operating Cost Statement if the deficit exceeds the balance on the Revaluation Reserve.

## 1.4 Depreciation

In accordance with Forestry Commission policy, freehold land is not depreciated.

Depreciation is provided on all other tangible assets at rates calculated to write off the valuation, less estimated residual value, of each asset evenly over its expected useful life.

Freehold buildings – 20 to 80 years.

Scientific equipment – 6.5 to 20 years.

IT hardware – 3 to 10 years.

Other machinery and equipment – 10 to 20 years.

## 1.5 Intangible Fixed Assets

Purchases of software with an acquisition value of £1500 are recognised as intangible fixed assets and amortised over their expected useful lives to a maximum of seven years. Software purchases with an acquisition value of less than £1,500 are pooled and treated as intangible fixed assets, as the overall value is material.

## 1.6 Stocks and Work in Progress

Stocks of publications for resale are held and are valued at the lower of cost and net realisable value. Work in progress on long-term projects is valued at the cost of staff time and other direct costs plus attributable overheads based on the normal level of activity.

## 1.7 Provision for Bad and Doubtful Debts

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

## 1.8 Research and Development

As a provider of research services, all income and expenditure on research and development is written off to the Operating Cost Statement.

## 1.9 Cost of Capital Charges

Charges, representing the cost of capital utilised by the Agency, are identified on 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, except for cash balances, less liabilities.

## 1.10 Corporation Tax

Forest Research is not subject to corporation tax.

## 1.11 Value Added Tax

The Forestry Commission is registered for Value Added Tax (VAT) and accounts for it on a Great Britain basis, including any Agency activity. Income and expenditure shown in the accounts is net of any recoverable VAT. Non-recoverable VAT is charged to the accounts in the year in which it is incurred.

## 1.12 Foreign Currencies

Transactions in foreign currencies are recorded at the rate ruling at the time of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the rates ruling at that date. Translation differences are recorded in the Operating Cost Statement.

## 1.13 Insurance

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

## 1.14 Pensions

Past and present employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS), which is non-contributory and unfunded. The Forestry Commission recognises the expected cost of providing pensions on a systematic and rational basis over the period during which it accrues benefits from employees' services by payment to the PCSPS of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the PCSPS. Further information on pensions is contained in the Remuneration Report and note 3 to the accounts.

## 1.15 Provisions

Forest Research 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 or 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 (currently 2.2%).

## 1.16 Third Party Assets

Forest Research acts as co-ordinator for a number of projects partially funded by the European Commission. The duties of co-ordinators include receiving funds on behalf of partners for onward transmission once work programmes have been approved. These Third Party Assets, which neither the Agency or government more generally has a direct beneficial interest in, are not recognised in the accounts. The amount held at 31 March 2008 was £nil.

## Note 2. Income from Forestry Commission and Forest Enterprise

- 2.1** The Agency undertakes a significant proportion of the Forestry Commission's overall annual research programme in the form of specifically commissioned projects to deliver agreed outputs. A separate annual charge is agreed for each project based on full cost recovery. These charges amounted to £10.2 million. Costs established in one year are used to determine project charges for future years. The Agency also provides research and survey services for Forest Enterprise and other parts of the Forestry Commission on a full cost recovery basis.

Income from Forestry Commission customers consisted of:

	<b>2007-08</b>	2006-07
	<b>£000</b>	£000
Research, development and other services to:		
Forestry Commission	<b>11,906</b>	11,778
Forest Enterprise	<b>1,186</b>	1,387
	<b>13,092</b>	13,165

## Note 3. Staff Costs and Numbers

### 3.1 Employee costs during the year amounted to:

	<b>2007-08</b>		2006-07
	<b>Permanent staff</b>	<b>Other staff</b>	
	<b>£000</b>	<b>£000</b>	£000
Wages and Salaries	<b>6,717</b>	<b>834</b>	7,515
Social Security Costs	<b>512</b>	<b>61</b>	585
Employer's Superannuation Costs	<b>1,312</b>	<b>114</b>	1,390
Agency Staff Costs	<b>-</b>	<b>35</b>	27
	<b>8,541</b>	<b>1,044</b>	9,517

  

	<b>2007-08</b>	2006-07
Average number of employees (full-time equivalents)		
Permanent staff	<b>233</b>	251
Others	<b>43</b>	39
Total staff	<b>276</b>	290

Staff were covered by the Principal Civil Service Pension Scheme (PCSPS) which is an unfunded multi-employer defined benefit pension scheme but the Forestry Commission is unable to identify its share of the underlying assets and liabilities. The scheme actuary valued the scheme as at 31 March 2007. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation ([www.civilservice-pensions.gov.uk](http://www.civilservice-pensions.gov.uk)).

For 2007-08, employers' contributions of £1,425,800 were payable to the PCSPS (2006-07: £1,389,458) at one of four rates in the range 17.1% to 25.5% (2006-07: 17.1% to 25.5%) of pensionable pay, based on salary bands. The scheme actuary reviews employer contributions every four years following a full scheme valuation. The contribution rates reflect benefits accruing during 2007-08 to be paid to the member when they retire 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. No Agency staff have yet taken this option.

### 3.2 Benefits in kind are provided under the following schemes:

- (i) Advances of Salary for House Purchase
- (ii) Advances of Salary for purchase of Season Tickets and Bicycles
- (iii) Car Provision for Employees Scheme.

Each scheme is subject to conditions and financial limits.

The Advances of Salary for House Purchase scheme had loans with an outstanding balance of £2,500 or more to three individual members of staff at 31 March 2008. The total outstanding value of all loans was £50,742.

## Note 4. Other Management Costs

Other management costs are stated after charging:

	<b>2007-08</b>	2006-07
	<b>£000</b>	£000
Auditors' remuneration	<b>25</b>	23
Travel and subsistence	<b>558</b>	586
Staff transfer expenses	<b>68</b>	62
Training	<b>156</b>	159
Building maintenance	<b>457</b>	430
Utilities	<b>291</b>	324
Computer supplies	<b>89</b>	92
Early retirement/departure costs	<b>6</b>	4
Depreciation of fixed assets	<b>670</b>	628
Loss on disposal of fixed assets	<b>38</b>	-
Other expenditure	<b>81</b>	196
	<b>2,439</b>	2,504

Included within other management costs are charges from the Forestry Commission and Forest Enterprise amounting in total to £121,000 (2006-07: £114,000).

## Note 5. Materials and Services

Materials and services are stated after charging:

	<b>2007-08</b>	2006-07
	<b>£000</b>	£000
Materials and supplies	<b>998</b>	742
Central services from Forestry Commission	<b>738</b>	722
Vehicle lease charges from Forestry Commission	<b>399</b>	421
Contractors	<b>859</b>	636
Commissioned research	<b>177</b>	166
Publications	<b>38</b>	63
Protective clothing	<b>19</b>	23
Miscellaneous expenditure	<b>257</b>	306
	<b>3,485</b>	3,079

Included within materials and services are charges from the Forestry Commission and Forest Enterprise amounting in total to £1,134,000 (2006-07: £1,143,000).

Charges are made to Forest Research from the Forestry Commission and Forest Enterprise, as appropriate, for assistance with field experiments, hire of vehicles, machinery and equipment and for personnel, business management, financial and other support services at Silvan House, Edinburgh.

## Note 6. Tangible Fixed Assets

	<b>Freehold Land and Buildings</b>	<b>Scientific Equipment</b>	<b>IT Equipment</b>	<b>Other Machinery and Equipment Machinery</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Valuation:</b>					
<b>At 1 April 2007</b>	12,314	2,003	945	697	15,959
Additions	46	450	101	194	791
Disposals	–	(402)	(377)	(105)	(884)
Revaluation to current prices	1,309	25	(19)	(2)	1,313
<b>At 31 March 2008</b>	<b>13,669</b>	<b>2,076</b>	<b>650</b>	<b>784</b>	<b>17,179</b>
<b>Depreciation:</b>					
<b>At 1 April 2007</b>	<b>1,164</b>	<b>1,094</b>	<b>619</b>	<b>280</b>	<b>3,157</b>
Provided in year	257	186	118	56	617
Disposals	–	(367)	375	(104)	(846)
Revaluation to current prices	97	9	(6)	(1)	99
<b>At 31 March 2008</b>	<b>1,518</b>	<b>922</b>	<b>356</b>	<b>231</b>	<b>3,027</b>
<b>Net book value:</b>					
At 31 March 2008	<b>12,151</b>	<b>1,154</b>	<b>294</b>	<b>553</b>	<b>14,152</b>
At 31 March 2007	11,150	909	326	417	12,802

Fixed assets were revalued as at 31 March 2008 in accordance with accounting policies. The valuation includes the principal research stations at Alice Holt Lodge near Farnham in Surrey and the Northern Research Station, Roslin near Edinburgh, with net book values of £6.9 million and £3.2 million respectively at 31 March 2008.

## Note 7. Intangible Fixed Assets

	<b>2007-08</b>	2006-07
	<b>£000</b>	£000
<b>Valuation</b>		
Balance at 1 April	<b>252</b>	135
Additions	<b>37</b>	107
Revaluation	<b>(10)</b>	10
<b>As at 31 March</b>	<b>279</b>	252
<b>Amortisation</b>		
Opening balance	<b>69</b>	28
Depreciation in year	<b>53</b>	40
Revaluation	<b>(2)</b>	1
<b>As at 31 March</b>	<b>120</b>	69
<b>Net book value</b>	<b>159</b>	183

Intangible fixed assets relates wholly to purchased software.

## Note 8. Cost of Capital

Notional cost of capital based on 3.5% of average total assets, excluding bank balances, less current liabilities employed in 2007-08 amounted to £510,986 (2006-07: £474,627).

## Note 9. Stocks and Work in Progress

	<b>2007-08</b>	2006-07
	<b>£000</b>	£000
Stocks	<b>3</b>	-
Research work in progress	<b>948</b>	1,394
	<b>951</b>	1,394

# Accounts

for the year ended 31 March 2008

## Note 10. Debtors

### 10a. Analysis by type

	<b>2007-08</b>	2006-07
	<b>£000</b>	£000
<b>Amounts falling due within one year</b>		
EU debtors	<b>295</b>	242
Other Trade debtors	<b>438</b>	231
Other debtors	<b>7</b>	31
Prepayments	<b>184</b>	154
	<b>924</b>	658
<b>Amounts falling due after one year</b>		
House purchase loans	<b>44</b>	51
	<b>968</b>	709

### 10b. Intra-Government Balances

	<b>2007-08</b>	2006-07
	<b>£000</b>	£000
Balances with other central government bodies	<b>255</b>	267
Balances with local authorities	<b>27</b>	-
Intra-Government balances	<b>282</b>	267
Balances with bodies external to government		
Falling due within one year	<b>642</b>	391
Falling due after more than one year	<b>44</b>	51
	<b>968</b>	709

## Note 11. Cash at bank and in hand

The following balances at 31 March are held at commercial banks and as cash in hand

	<b>2007-08</b>	2006-07
	<b>£000</b>	£000
<b>Opening balance at 1 April</b>	<b>248</b>	227
Net change in balances	<b>27</b>	21
<b>Balance at 31 March</b>	<b>275</b>	248

As part of its normal activities Forest Research maintains Sterling and Euro bank accounts primarily used for the receipt of income from non-Forestry Commission customers. These accounts are cleared to the Commission's main account on a regular basis. Sums held in these accounts on behalf of partners in European Commission projects are treated as third party assets and not included in the balances shown.

## Note 12. Creditors: amounts falling due within one year

The following balances at 31 March are held at commercial banks and as cash in hand

	<b>2007-08</b>	2006-07
	<b>£000</b>	£000
Payments received on account	<b>324</b>	156
Trade creditors	<b>848</b>	492
Other creditors including taxation and social security costs	<b>13</b>	12
	<b>1,185</b>	660

All creditors are bodies external to central or local government. Funds held on behalf of partners in European Commission projects are treated as third party assets and not recorded on the face of the accounts (see note 1.16). At 31 March 2008 the amount held in Forest Research Bank accounts on behalf of partners was Nil (31 March 2007: £259,144 which was subsequently paid over).

# Accounts

for the year ended 31 March 2008

## Note 13. Provisions for Liabilities

	<b>2007-08</b>	2006-07
	<b>£000</b>	£000
<b>Early departure costs</b>		
Balance brought forward	<b>170</b>	443
Provided in year	<b>4</b>	146
Provision not required written back	<b>-</b>	(369)
Utilised in year	<b>(76)</b>	(43)
Unwinding of discount	<b>5</b>	(7)
<b>Balance carried forward</b>	<b>103</b>	170

## Note 14. General Fund

	<b>2007-08</b>	2006-07
	<b>£000</b>	£000
Balance brought forward	<b>7,495</b>	7,345
Movement in year		
Backlog depreciation	<b>86</b>	68
Net (deficit) for year	<b>(1,398)</b>	(21)
Transfer of fixed assets to (-)/from other Forestry Bodies	<b>-</b>	(12)
Cash surplus to (-)/deficit from Forestry Commission	<b>392</b>	(357)
Non-cash inter-country transfers	<b>-</b>	(2)
Notional cost of capital	<b>511</b>	474
<b>Balance carried forward</b>	<b>7,086</b>	7,495

## Note 15. Revaluation Reserve

	<b>2007-08</b>	2006-07
	<b>£000</b>	£000
Balance brought forward	<b>7,011</b>	5,746
Revaluation surplus/(deficit) for the year ended 31 March 2008		
Land and Buildings	<b>1,212</b>	1,335
Scientific equipment	<b>16</b>	(4)
IT	<b>(13)</b>	(24)
Other machinery and equipment	<b>(1)</b>	17
Intangible assets	<b>(8)</b>	9
	<b>1,206</b>	1,333
<b>Transfer to general fund for backlog depreciation</b>	<b>(86)</b>	(68)
<b>Balance carried forward</b>	<b>8,131</b>	7,011

## Note 16. Note to the Cash Flow Statement

### 16a. Reconciliation of net deficit to net cash flow from operating activities

	2007-08	2006-07
	£000	£000
Net (deficit) for the year	<b>(1,398)</b>	(21)
<b>Adjustments for non-cash transactions</b>		
Depreciation – tangible fixed assets	<b>617</b>	588
Depreciation – intangible fixed assets	<b>53</b>	40
Non-cash inter-country transfers	-	(2)
(Profit) / loss on disposal of assets	<b>38</b>	-
Notional cost of capital	<b>511</b>	475
<b>Provisions</b>		
Provided in year	<b>4</b>	146
Provisions not required written back	-	(369)
Unwinding of discount	<b>5</b>	(7)
	<b>(170)</b>	850
<b>Adjustments for working capital</b>		
Decrease / (Increase) in stocks and work in progress	<b>443</b>	(107)
Decrease / (Increase) in debtors	<b>(259)</b>	41
Increase / (Decrease) in creditors	<b>525</b>	217
	<b>709</b>	151
<b>Use of provisions</b>	<b>(76)</b>	(43)
<b>Net cash inflow/(outflow) from operations</b>	<b>463</b>	958

### 16b. Analysis of capital expenditure

	2007-08	2006-07
	£000	£000
Tangible fixed assets	<b>713</b>	477
Intangible fixed assets	<b>37</b>	107
<b>Total cash expenditure on fixed assets</b>	<b>750</b>	584
Increase / (Decrease) in creditors	<b>78</b>	(4)
<b>Capital expenditure</b>	<b>828</b>	580

## Note 17. Post Balance Sheet Events

There were no significant post-balance sheet events to record except the appointment of Dr James Pendlebury as Chief Executive and Agency Accounting Officer with effect from 16 June 2008.

These financial statements were authorised for issue on 16 July 2008 by the Agency Accounting Officer.

## Note 18. Related Party Transactions

During the year, Forest Research has had a significant number of material transactions with the Forestry Commission and Forest Enterprise country agencies who are regarded as related parties. In addition, Forest Research has had various material transactions with other Government Departments and other central Government bodies. Most of these transactions have been with the Department for Environment, Food and Rural Affairs. Professor Jim Lynch, Chief Executive (until 30 September 2007), is Distinguished Professor of Life Sciences at the University of Surrey. The value of payments to the University for services provided in the year to 31 March 2008 was £64,000. Andy Moffat, Head of Environmental and Human Sciences Division, holds a visiting professorship at the University of Reading with which £3,000 was spent on research services. Other members of staff hold professorships at UK and foreign universities but no material financial transactions took place with these in 2007–08.

## Note 19. Losses Statement

There were no losses (2006–07: £nil).

## Note 20. Contingent Liabilities

There were three contingent liabilities at 31 March 2008 in respect of actions by ex-employees.

## Note 21. Financial Instruments

FRS 13: Derivatives and other financial instruments require disclosure of the role which financial instruments have had during the period in creating or changing the risks an entity faces in undertaking its activities. Because of the way in which government departments are financed, the Agency 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 Agency in undertaking its activities.

### **Liquidity risk**

The Agency is not exposed to significant liquidity risks because its net revenue and capital resource requirements are financed by resources voted annually by the UK Parliament.

**Interest rate risk**

The Agency is not exposed to interest rate risk.

**Foreign currency risk**

The Agency has commercial relations with foreign customers and the European Commission, having dealings in foreign currencies and the Euro as well as Sterling. The treatment of gains and losses arising from transactions in foreign currencies is described at note 1.12 to the accounts. The Agency is therefore exposed to foreign currency risk, but the risk is not significant with income from these sources being no more than 9% of the Agency's total income.

**Note 22. Financial Performance Measures**

The Agency's net deficit was £1,398,000. Financial performance from normal operating activity resulted in an operating deficit of £887,000, which, after allowing for the cost of capital, and before exceptional items, represented a cost recovery of 91.3% (2006-07: 99.9%).

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