
Accounts for the year ended 31 March 2009

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Annual Report for the year ended 31 March 2009

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.

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.

With effect from 1 April 2008, the Forestry Commission's Estimate is incorporated as a separate Request for Resource (RfR) within the Defra Estimate. The Forestry Commission Estimate comprises sub-heads A and B with the net funding of Forest Research, as a Great Britain entity, included in sub-head B.

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 (PAGs) involving country stakeholders. The Agency also 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 sectors are very important. The Agency maintains effective contact with these sectors through direct work for, or dialogue and project partnership with, individuals, companies, trade associations and professional bodies. We also provide an annual suite of targeted seminars, workshops and continuing professional development (CPD) events and host stands at major events such as the Royal Welsh Show. The launch of our newsletter **FR News** during the year has been well received by external stakeholders and typifies our outward facing approach to communications.

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 8 in the main body of the Annual Report and Accounts.

Current and future development and performance

6. Operating review

The need for scientific evidence to support the development and delivery of country-specific forestry policies is increasing, for example in the area of forest and soil carbon management, and requires FR to be flexible and responsive in the research advice and services it provides. This link to policy and operational needs has been strengthened during the year by changing the structure and composition of the PAGs, the system by which the FC collectively specifies its research needs. FR staff now provide contract proposals for all FC-funded programmes annually and these are reviewed, modified and approved by the PAGs each Autumn. This ensures that the programme of research undertaken by FR is aligned very closely to the developing policy agendas in each country and their associated operational needs. The guidance we published during the year on stump harvesting for renewable energy production is a good example of the applied science we provide which supports both policy objectives and the development of industrial best practice.

As a result of a review, the Forestry Commission decided to consolidate its inventory and forecasting activities and created a new unit within the Department called Inventory Forecasting & Operational Support (IFOS). The creation of this unit resulted in the formal transfer of 11 staff from FR to the Department with effect from 1 April 2009.

Given the disappointing financial outturn in 2007–08, we carried out an organisation-wide efficiency and delivery review during the year and this recommended specific cost savings, including the need to restructure and re-profile our scientific expertise. As a result, FR secured support to run a voluntary severance scheme and agreed terms with 16 applicants at a total cost of £1.2 million. This reduction in staff numbers will result in considerable annual salary savings, and allow FR to recruit in areas of research where there is growing demand.

During the year we also reorganised FR, to reflect market needs, into an Operations Unit and three inter-linking centres:

- The Centre for Forestry and Climate Change
- The Centre for Forest Resources and Management
- The Centre for Human and Ecological Sciences

All staff were transferred to one of these three centres or the Operations Unit during the year and the new structure was officially launched on 2 April 2009.

7. Financial review

Forest Research produced a net operating deficit of **£128,000** on its Operating Cost Statement, excluding exceptional items and the notional cost of capital, an improvement over the net operating deficit of £887,000 in 2007–08. A comparison of income and expenditure with the previous year's results shows that:

- staff costs increased by £240,000 (2.5%), following a Pay Award worth 4.0% with effect from 1 October 2008
- other management costs increased by £331,000 (13.6%), mainly as a result of PRINCE project management training, losses on disposals of assets (removal of roads and car parks from the asset register) and higher depreciation charges (resulting from the revaluation and re-living of buildings)
- materials and services costs decreased by £593,000 (17.0%), primarily resulting from one project which used a high level of materials and supplies being completed, employment of fewer contractors to meet contractual commitments and project partners' costs not being accounted for as services
- income from Forestry Commission customers increased by £323,000 (2.5%), including an additional £200,000 from Corporate and Forestry Support
- income from external customers increased by £414,000 (27.1%). The 2007–08 figure was much lower than previous years and this increase is a result of improved financial and management information systems and reporting, and an increased level of work undertaken for external customers
- a provision of £1,220,000 was made for early departure costs of staff committed to leave in the restructuring of Forest Research during 2009–10
- the notional cost of capital decreased by £37,000 (7.2%), as a result of downward revaluation of fixed assets and a provision for early departure costs.

Excluding early departure costs from the 2008–09 results, cost recovery would have been **96.2%**. However, the net deficit for the year after the cost of capital charge of £474,000, early departure costs and depreciation was £1,822,000, representing a cost recovery rate of 89.4%, compared with 91.3% in 2007–08.

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 inflow for the year was £671,000, which was paid to the Forestry Commission. This compared with a cash outflow of £392,000 in 2007–08.

Additions to fixed assets in the year were £268,000. Forest Research restricted capital expenditure for the year to essential items only as a way of minimising a budget deficit, but plans to increase capital expenditure in future years.

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 2008–09 the recovery rate was 96.2%, before allowing for early departure costs and 89.4% once these exceptional items were included.

Performance against other operational, scientific and financial KPIs is reported in the main body of the Annual Report and Accounts. FR achieved £1.9m of income from non-FC customers against the KPI target of £2.4m.

9. Events since the balance sheet date

There were no significant post-balance sheet events to record.

10. The future

FR published a Development Strategy in September 2006, however, the evidence base requirements and scientific needs of our key clients have changed significantly since then, for example, climate change has moved up the

agenda and there is an urgent need for FR to review both its business development and scientific strategies. Therefore in 2009–10 FR will develop and publish a series of inter-linking science, business development and strategic investment plans. It is our intention for these plans to provide a comprehensive blueprint for FR's future direction and development over the coming five years.

As part of its corporate plan objectives for 2009–10, FR will officially launch its three new research centres and develop their profiles through a series of targeted marketing events. FR will also continue to participate and play its part in the Forestry Commission's corporate programmes, in particular Business Sustainability, Investors in People and Equality and Diversity.

We also intend to place considerable emphasis on staff development during 2009–10, in particular through our participation in the Forestry Commission's Management Development Programme and through an in-house programme of events for our science leaders and managers.

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 2008–09 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.

In October 2008, the Prime Minister committed Government organisations to improving the cash flow position of its suppliers by settling their accounts within 10 days wherever possible. The Forestry Commission recognises its role in supporting local, rural economies and has a proven record of meeting its contractual payment terms. It also works closely with its local suppliers to ensure prompt payment of debt. Management recognised that the general economic climate could potentially have a detrimental effect on small and medium enterprises and considered whether further action could be taken to improve cash flows.

The Forestry Commission concluded that no special systems solutions would be required. Local offices have a very close working relationship with their suppliers. For the most part, local suppliers have ongoing dialogues with their Forestry Commission contract managers about business issues including cash flows. Through these, small/medium suppliers already had processes in place that enabled prompt payments. It was generally believed that suppliers who faced hardship would discuss the matter with contract managers and agreed solutions developed. While the above would not apply directly to larger companies, the Forestry Commission believed that special measures would not be required because of existing levels of prompt payment.

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. **Sickness absence**

We have one common absence management policy which covers the whole of the organisation and provides a consistent framework approach to management. The policy is underpinned by an externally provided occupational health service and an internal employee support programme which is available 24 hours a day. In 2008–09, the average number of working days lost to sickness absence was 5.54 per employee, which compares favourably with the average of 6.25 for the Forestry Commission.

14. **Management**

The Department for Environment, Food and Rural Affairs Ministers who had responsibility for the Forestry Commission, including Forest Research, during the year were:

Rt. Hon. Hilary Benn MP	<i>Secretary of State</i>
Joan Ruddock MP	<i>Parliamentary Under-Secretary of State (Climate Change, Biodiversity and Waste) (until October 2008)</i>
Huw Irranca-Davies MP	<i>Parliamentary Under-Secretary of State (Natural and Marine Environment, Wildlife and Rural Affairs) (from October 2008)</i>

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

James Pendlebury	<i>Chief Executive (from 16 June 2008)</i>
Peter Freer-Smith	<i>Research Director (Acting Chief Executive until 15 June 2008)</i>
Ken Charles*	<i>Head of Human Resources and Administration</i>
Sandra Smith*	<i>Finance Director</i>
Bill Mason*	<i>Head of Forest Management Division</i>
Helen Mckay	<i>Head of Biometrics, Surveys and Statistics Division</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 until 15 June 2008)</i>
Xanthe Christophers*	<i>Communications Director</i>
Janet Dutch*	<i>Head of Technical Services Unit</i>
Alison Melvin*	<i>Commercial Director</i>
Hugh Williams	<i>Acting Director of Communications (from 1 September 2008) then Head of Operations (from 23 February 2009)</i>
Wilma Harper	<i>Head of Corporate and Forestry Support</i>

* The Executive Board was restructured during 2008–09 and these staff ceased to be Board members from 6 November 2008.

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 48).

15. Pensions

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

16. Personal data related incidents

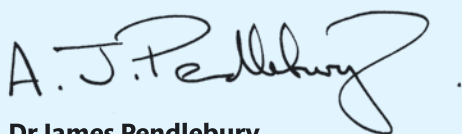
There were no protected personal data related incidents reported for Forest Research in 2008–09 or previous financial years. Forest Research will continue to monitor and assess its information risks in order to identify and address any weaknesses and ensure continued improvement of its systems. Further information on the handling of information risk is contained in the Statement on Internal Control.

17. 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 £28,000. No further assurance or other non-audit services were provided.

18. 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
8 July 2009

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. Dr James Pendlebury was appointed as 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.

All 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 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

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.

Name	2008-09		2007-08	
	Salary £000	Benefits in kind (to the nearest £100)	Salary £000	Benefits in kind (to the nearest £100)
James Pendlebury (from 16 June 2008)	55-60 (full year equivalent 70-75)	900	00-00	-
Peter Freer-Smith	75-80	3,900	75-80	3,700
Ken Charles (to 6 November 2008)	30-35 (full year equivalent 50-55)	-	45-50	-
Sandra Smith (to 6 November 2008)	25-30 (full year equivalent 40-45)	-	10-15 (full year equivalent 40-45)	-
Bill Mason (to 6 November 2008)	35-40 (full year equivalent 55-60)	-	55-60	-
Hugh Williams (from 1 September 2008)	25-30 (full year equivalent 45-50)	-	00-00	-
Helen Mckay	55-60	-	50-55	-
Hugh Evans (to 6 November 2008)	35-40 (full year equivalent 60-65)	1,200	60-65	1,500
Chris Quine	60-65	-	55-60	-
Andy Moffat	60-65	-	60-65	-
Xanthe Christophers (to 6 November 2008)	20-25 (full year equivalent 40-45)	-	45-50	-
Janet Dutch (to 6 November 2008)	20-25 (full year equivalent 35-40)	-	30-35	-
Alison Melvin (to 6 November 2008)	20-25 (full year equivalent 35-40)	-	35-40	-

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 2008-09 as she is Head of Corporate Forestry and Support, 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 2009

Pension benefits 2008-09 (information subject to audit)

Name	Accrued pension at age 60 at 31/3/09 and related lump sum	Real increase in pension and related lump sum	CETV at 31 March 2009	CETV at 31 March 2008**	Real increase (decrease) in CETV	Employer contribution to partnership pension account
	£000	£000	£000	£000	£000	nearest £100
James Pendlebury	5-10 plus 20-25 lump sum	0-2.5 plus 5-7.5 lump sum	116	78	30	-
Peter Freer-Smith	20-25 plus 70-75 lump sum	0-2.5 plus 2.5-5.0 lump sum	493	442	16	-
Ken Charles*	20-25 plus 70-75 lump sum	0-2.5 plus 0-2.5 lump sum	547	515	15	-
Bill Mason*	20-25 plus 70-75 lump sum	0-2.5 plus 2.5-5.0 lump sum	555	504	20	-
Hugh Williams	5-10 plus 5-10 lump sum	0-2.5 plus 0-2.5 lump sum	98	71	16	-
Hugh Evans*	25-30 plus 85-90 lump sum	0-2.5 plus 0-2.5 lump sum	667	605	13	-
Chris Quine	20-25 plus 60-65 lump sum	0-2.5 plus 2.5-5.0 lump sum	362	316	17	-
Andy Moffat	20-25 plus 65-70 lump sum	0-2.5 plus 0-2.5 lump sum	484	437	11	-
Xanthe Christophers*	0-5	0-2.5	49	34	10	-
Helen McKay	15-20 plus 50-55 lump sum	0-2.5 plus 0-2.5 lump sum	380	348	(4)	-
Sandra Smith*	0-5	0-2.5	15	3	10	-
Janet Dutch*	5-10 plus 20-25 lump sum	0-2.5 plus 0-2.5 lump sum	128	112	6	-
Alison Melvin*	0-5 plus 10-15 lump sum	0-2.5 plus 0-2.5 lump sum	73	58	9	-

* Left the Executive Board during 2008-09

** The figure may be different from the closing balance in last year's accounts. This is due to the Cash Equivalent Transfer Value (CETV) factors being updated to comply with The Occupational Pension Scheme (Transfer Values) (Amendment) Regulations 2008.

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 updated 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

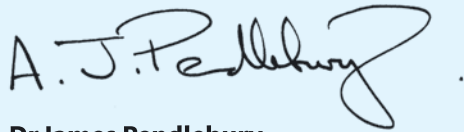
Cash Equivalent Transfer Values

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
8 July 2009

Statement of Accounting Officer's Responsibilities

Under Section 7 of the Government Resources and Accounts Act 2000 the Treasury has directed the Forestry Commission to prepare for each financial year a statement of accounts for Forest Research 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 issued by HM Treasury, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards, as set out in the *Government Financial Reporting Manual*, have been followed, and disclose and explain any material departures in the accounts;
- prepare the accounts on the going concern basis.

The Director General of the Forestry Commission, as Accounting Officer for the Forestry Commission, has designated the Chief Executive of Forest Research as the Accounting Officer for the Agency. His responsibilities as Agency Accounting Officer (including responsibility for the propriety and regularity of the public finances for which an Accounting Officer is answerable, for keeping proper records, and for safeguarding the Agency's assets), are set out in *Managing Public Money* published by the Treasury.

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 until my appointment 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 HM Treasury's *Managing Public Money*.

The Chief Executive is a member of the Forestry Commission's (FC's) Executive Board and is responsible, normally through the Director General, to the Forestry Commissioners for the management of the Agency. The Chief Executive has a right of direct access to the Commissioners, and to the relevant Minister, and a right to meet them at least once a year. As Agency Accounting Officer, I am responsible for the Agency's accounts and financial procedures, and for the proper, effective and efficient use of resources provided to the Agency within the terms of the Framework Document and in pursuit of the agreed objectives and targets.

In particular, I am responsible for:

- preparing the Agency's Corporate Plan and achieving the Agency's targets;
- the 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;
- chairing an Agency Executive Board (EB) comprising senior managers within the Agency and the FC's Head of Corporate and Forestry Support.

As part of their Accounting Officer responsibilities, the Director General and Chief Executive are liable to be invited to appear before the Committee of Public Accounts (PAC). 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 2009 and up to the date of approval of the Annual Report and Accounts, and accords with Treasury guidance.

3. Capacity to handle risk

The FC's risk management policy statement sets out why risk management is important; the procedures in place to enable the FC to manage risk; and the roles and responsibilities individuals have to ensure risks are managed effectively. The policy was updated in March 2009 and is available to all staff via the intranet.

Each discrete area of the FC is responsible for ensuring the proper management of risks within their own area, including embedding policymaking, planning and delivery.

4. The risk and control framework

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. It includes regular reporting to the Agency EB, FC EB and, where necessary, to the Board of Commissioners.

Forest Research has established an Audit and Risk Committee (ARC) to support the Accounting Officer and Agency EB in their responsibilities for the effective management of risk, control and governance. Through its work the ARC provides independent assurance on these key activities within the direct control of Forest Research, which supports the achievement of its objectives. The ARC operates in accordance with the principles contained in the *Treasury's Audit Committee Handbook*. The ARC advises the Agency Accounting Officer and EB on:

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

The ARC met three times in July and November 2008 and March 2009. In all cases they considered a range of reports from management, and from internal and external audit. The ARC will periodically review its own effectiveness; the first review is scheduled for Autumn 2009.

An FC-wide Risk Management Group (RMG) co-ordinates the continued development of risk management within, and the sharing of best practice across, the FC. The RMG met in March 2009 to approve a revised risk policy document, to update members on developments in each part of the FC and to review progress on business continuity planning.

In the year to 31 March 2009, Forest Research has carried out further work on its risk register. Risk categories and definitions have been updated and a review of the number of significant risks noted in the register, and their associated scoring, has also commenced, linked to the revised organisational structure effective from April 2009. As a result the EB was unable to fully fulfil its responsibilities for managing risk. As a consequence of this, and other competing priorities, the development of Forest Research's specific Business Continuity Plans (BCPs) has not taken place as intended during 2008-09 and has been deferred to the coming year.

BCPs covering the shared services of Human Resources, Information Services and Finance are still under development. A private risk management consultant has helped to develop framework BCPs but more work is required to link them to the BCPs prepared by countries and agencies and to ensure they meet the needs of customers. The additional work is progressing alongside an FC project to gain certification to the ISO/IEC 27001 standard for Information Security Management Systems.

5. Data handling in Government

The FC has appointed its Director of Finance as the Senior Information Risk Owner (SIRO). The SIRO chairs the Information Security Management Forum (ISMF) which co-ordinates and controls the implementation of information security across the FC. It has met on nine occasions during the year. The work of the ISMF is supported on a day-to-day basis by the Departmental Security Officer (DSO) and the IT Security Officer (ITSO). In determining our approach, the FC has taken the view that, in comparison with other government departments, our information systems hold a relatively small number of records and that the volume of sensitive information requiring a protective marking is relatively low.

The ARC has received updates on information assurance and data handling during the year in accordance with guidance provided by the Cabinet Office. In addition, the SIRO has produced an annual assessment of risk management across the FC. During the year, the FC has progressed the following requirements:

- distributed the guidance publication, *Managing Information Risk*, to Accounting Officers, Chairs of Audit Committees and Board members to assist them in understanding information risk;
- published an Information Charter setting out the standards that people can expect from us when we request or hold their personal information;
- encrypted all existing laptops that connect to the network;
- produced new guidance on marking protective documents;
- established an information asset register and undertaken detailed risk assessments;
- appointed Information Asset Owners (IAOs) for corporate systems.

Despite the progress made in 2008–09, this is still work in progress and there remains a good deal more to be done. In particular, completion of the ISO/IEC 27001 project will demonstrate that the FC has established robust information security policies and related guidance, and educated staff and third parties in information security.

Following development of the National School for Government (NSG) online training package, we are now in a position to make progress on our own training programme. We are currently assessing how to deliver the training requirements set out in the Data Handling Review and the Security Policy Framework using the NSG package as a core tool.

To aid continuous improvement, the Government has introduced the Information Assurance Maturity Model (IAMM). We are undertaking a self-assessment against the Model to include in our annual report to the Cabinet Office. The output from the assessment, in combination with the risk treatments identified from the ISO/IEC 27001 Project, will provide a focus for attention in the forthcoming year.

We have a reporting system to capture all security incidents which are investigated in accordance with Cabinet Office and Information Commissioners' guidance. As reported in the Management Commentary, there have been no reportable incidents of personal information data loss during the year.

6. Review of effectiveness

As Agency Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control.

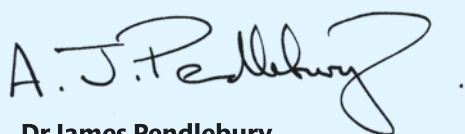
My review is informed by the executive managers within the Agency who have responsibility for the development and maintenance of the internal control framework; the work of the internal auditors, who submit reports to the ARC which include the Head of Internal Audit's independent and objective opinion 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 letter and other reports. Plans to address weaknesses and ensure continuous improvement of the system are in place. Areas requiring particular attention during 2009–10 are as follows:

- One of Forest Research's objectives is to breakeven but it has sustained a deficit in both 2007–08 and 2008–09. The Agency has restructured with effect from 2 April 2009 and a number of staff will be departing under an early retirement/severance scheme, which will reduce costs over time with the aim of achieving breakeven position. The main risk to Forest Research is the failure to secure new clients and generate additional external income to enable it to breakeven. Sources of external income will be closely monitored and new opportunities scrutinised to maximise external income.
- In order to manage its business and deliver on its strategy, Forest Research requires effective management information systems. Following an earlier review of information needs, a new time recording system was implemented during 2008–09. Problems concerning data input and output were encountered and took most of the year to resolve. This hampered Forest Research's ability to produce financial reports at Cost Centre level during the year, however financial control was managed at organisation level. The system has now been signed off as fit for purpose but will be subject to ongoing monitoring during 2009–10. During 2009–10 there will be more emphasis on project-based accounting and reporting to improve financial control and monitoring.
- The current strategic review of the risk register, to reflect the restructuring exercise and new Corporate Plan, will be concluded. The project to develop Forest Research-specific Business Continuity Plans will also be taken forward.
- Forest Research is reliant on Shared Services for many of its Human Resources, Information Services and Finance requirements. The governance and funding of these services, and their links to country and Agency-based support functions, is under review to ensure that they can meet the needs of their customers through an annual review process.
- The FC has found it difficult to meet the timetable for the introduction of International Financial Reporting Standards (IFRS). Despite engaging external accountancy expertise during the year, there were a significant number of matters outstanding at both the Treasury's trigger points for 2008–09. Meeting the trigger points for 2009–10, including the completion of all outstanding matters, is going to be challenging. The work will be planned and monitored closely during 2009–10 to ensure full compliance by the due dates.

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 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 assurance that material risks to the achievement of objectives are adequately managed, although some failings have been identified.

7. Significant internal control problems

There were no significant problems to report.



Dr James Pendlebury

Chief Executive and Agency Accounting Officer
8 July 2009

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 2009 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 Forestry Commission, the Chief Executive and Auditor

The Forestry Commission 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 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 2009, 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.

Amyas C E Morse

Comptroller and Auditor General
11 July 2009
National Audit Office
151 Buckingham Palace Road
Victoria
London SW1W 9SS

Accounts

for the year ended 31 March 2009

Operating Cost Statement for the year ended 31 March 2009

	Notes	2008-09 £000	2007-08 £000
Income			
Income from research, development and survey services			
Forestry Commission customers	2	13,415	13,092
Non-Forestry Commission Customers			
European Union	3	450	65
Other	3	1,494	1,465
Total income		15,359	14,622
Expenditure			
Staff costs	4	9,825	9,585
Other management costs	5	2,770	2,439
Materials and services	6	2,892	3,485
Total expenditure		15,487	15,509
Operating (deficit) before exceptional items		(128)	(887)
Early retirement compensation	4	(1,220)	-
Operating (deficit) after exceptional items		(1,348)	(887)
Notional cost of capital	9	(474)	(511)
Net (deficit) for the year		(1,822)	(1,398)
Net (deficit) transferred to General Fund		(1,822)	(1,398)

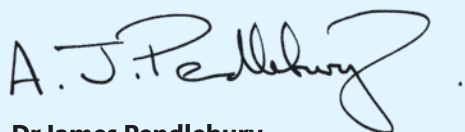
Statement of Total Recognised Gains and Losses for the year ended 31 March 2009

	2008-09 £000	2007-08 £000
Net (deficit) for the year	(1,822)	(1,398)
Revaluation (loss)/gain for the year	(1,279)	1,206
Total recognised gains/(losses)	(3,101)	(192)

The notes on pages 63 to 82 form part of these accounts.

Balance Sheet as at 31 March 2009

		31 March 2009 £000	31 March 2008 £000
	Notes		
Fixed assets			
Tangible assets	7	12,275	14,152
Intangible assets	8	142	159
		12,417	14,311
Debtors falling due after more than one year	11	58	44
Current assets			
Stocks and Work in Progress	10	626	951
Debtors	11	676	924
Cash at banks and in hand	12	454	275
		1,756	2,150
Creditors – amounts falling due within one year	13	(1,040)	(1,185)
Net current assets		716	965
Total assets less current liabilities		13,191	15,320
Provisions for liabilities and charges	14	(1,298)	(103)
		11,893	15,217
Taxpayers' Equity			
General Fund	15	5,069	7,086
Revaluation Reserve	16	6,824	8,131
		11,893	15,217



Dr James Pendlebury

Chief Executive and Agency Accounting Officer

8 July 2009

The notes on pages 63 to 82 form part of these accounts.

Accounts

for the year ended 31 March 2009

Cash Flow Statement for the year ended 31 March 2009

		2008-09	2007-08
	Notes	£000	£000
Net cash inflow from operating activities	17a	1,118	463
Capital expenditure	17b	(268)	(828)
Net cash surplus/(deficit)		850	(365)
Financing – net cash transfer (to)/from Forestry Commission		(671)	392
Increase in cash in the period		179	27

The notes on pages 63 to 82 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 2008–09 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 2008–09.

The normal threshold for the capitalisation of assets is £2,000, 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, dwellings and other buildings at five-yearly intervals. 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. Between full valuations, non-forest land, dwellings and other buildings are restated to current value using appropriate indices provided by the District Valuer. A full valuation took place as at 1 April 2008.

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

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 – 5 to 20 years.
IT hardware – 5 years.
Other machinery and equipment – 5 to 20 years.

1.5 Intangible Fixed Assets

Purchases of software with an acquisition value of £2,000 are recognised as intangible fixed assets and amortised over their expected useful lives to a maximum of fifteen years. Software purchases with an acquisition value of less than £2,000 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 directly 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 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.

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. All differences are recorded in the Operating Cost Statement for the period.

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 4 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 nor government more generally has a direct beneficial interest in, are not recognised in the accounts. The amount held at 31 March 2009 was £Nil.

1.17 Financial assets

Classification

Forest Research classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss comprise derivatives. Assets in this category are classified as current assets. Forest Research does not trade in derivatives and does not apply hedge accounting.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables comprise trade and other receivables and cash and cash equivalents in the Balance sheet.

(c) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date. Available for sale financial assets comprise investments.

Recognition and measurement

Financial assets are recognised when Forest Research becomes party to the contractual provisions of the financial instrument.

Financial assets are derecognised when the rights to receive cash flows from the asset have expired or have been transferred and Forest Research has transferred substantially all risks and rewards of ownership.

(a) Financial assets at fair value through profit or loss

Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement.

Financial assets carried at fair value through profit or loss are subsequently measured at fair value. Gains or losses arising from changes in the fair value are presented in the operating cost statement.

(b) Loans and receivables

Loans and receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of loans and receivables is established when there is objective evidence that Forest Research will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the loan and receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the operating cost statement. When a loan or receivable is uncollectable, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited in the operating cost statement.

(c) Available-for-sale financial assets

Available-for-sale financial assets are initially recognised and subsequently carried at fair value. Changes in the fair value of financial assets classified as available for sale are recognised in equity. When financial assets classified as available for sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the operating cost statement. Dividends on available-for-sale equity instruments are recognised in the operating cost statement when Forest Research's right to receive payments is established.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), Forest Research establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

Forest Research assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the operating cost statement. Impairment losses recognised in the operating cost statement on equity instruments are not reversed through the income statement.

1.18 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, cash balances held by the Office of the Paymaster General and other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the Balance sheet.

1.19 Financial Liabilities

Classification

Forest Research classifies its financial liabilities in the following categories: at fair value through profit or loss, and other financial liabilities. The classification depends on the purpose for which the financial liabilities were issued.

Management determines the classification of its financial liabilities at initial recognition.

(a) Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss comprise derivatives. Liabilities in this category are classified as current liabilities. Forest Research does not trade in derivatives and does not apply hedge accounting.

(b) Other financial liabilities

Other financial liabilities are included in current liabilities, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current liabilities. Forest Research's other financial liabilities comprise trade and other payables in the Balance sheet.

Recognition and measurement

Financial liabilities are recognised when Forest Research becomes party to the contractual provisions of the financial instrument.

A financial liability is removed from the Balance sheet when it is extinguished, that is when the obligation is discharged, cancelled or expired.

(a) Financial liabilities at fair value through profit or loss

Financial liabilities carried at fair value through profit or loss, are initially recognised at fair value, and transaction costs are expensed in the income statement.

Financial liabilities carried at fair value through profit or loss, are subsequently measured at fair value. Gains or losses arising from changes in the fair value are presented in the operating cost statement.

(b) Other financial liabilities

Other financial liabilities are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Note 2. Income from the Forestry Commission

- 2.1** The Agency undertakes the major 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:

	2008-09	2007-08
	£000	£000
Research, development and other services to:		
Forestry Commission	12,075	11,906
Forest Enterprise	1,340	1,186
	13,415	13,092

Note 3. Foreign Exchange Gains

EU income includes £55,000 relating to gains on foreign exchange transactions. Other income includes £30,000 relating to gains on foreign exchange transactions.

Note 4. Staff Costs and Numbers

4.1 Employee costs during the year amounted to:

	2008-09		2007-08
	Permanent staff	Other staff	
	£000	£000	£000
Wages and Salaries	6,646	1,081	7,551
Social Security Costs	505	78	573
Employer's Superannuation Costs	1,317	163	1,426
Agency Staff Costs	-	35	35
	8,468	1,357	9,585

	2008-09	2007-08
Average number of employees (full-time equivalents)		
Permanent staff	217	233
Others	45	43
Total staff	262	276

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).

For 2008–09, employers' contributions of £1,480,201 were payable to the PCSPS (2007–08: £1,425,800) at one of four rates in the range 17.1% to 25.5% (2007–08: 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 2008–09 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.

4.2 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 2009. The total outstanding value of all loans was £63,308.

4.3 Early departure costs

In February 2009, Forest Research called for volunteers for early severance on compulsory terms as part of a restructuring programme. The accounts include a provision of £1,220,000 for the early departure costs of those staff committed to leave in the restructuring during 2009–10. The provision represents the present values of the costs due in 2009–10 and beyond. Funding of the cash costs due in 2009–10 of £707,000 will be covered by the Forestry Commission Great Britain.

Note 5. Other Management Costs

Other management costs are stated after charging:

	2008-09	2007-08
	£000	£000
Auditors' remuneration	28	25
Travel and subsistence	566	558
Staff transfer expenses	59	68
Training	254	156
Building maintenance	446	457
Utilities	323	291
Computer supplies	85	89
Early retirement/departure costs (excluding exceptional items)	8	6
Depreciation of fixed assets	717	670
Loss on disposal of fixed assets	149	38
Other expenditure	135	81
	2,770	2,439

Included within other management costs are charges from the Forestry Commission and Forest Enterprise amounting in total to £191,000 (2007-08: £121,000).

Note 6. Materials and Services

Materials and services are stated after charging:

	2008-09	2007-08
	£000	£000
Materials and supplies	796	998
Central services from Forestry Commission	713	738
Vehicle lease charges from Forestry Commission	393	399
Contractors	506	859
Commissioned research	142	177
Publications	22	38
Protective clothing	15	19
Miscellaneous expenditure	305	257
	2,892	3,485

Included within materials and services are charges from the Forestry Commission and Forest Enterprise amounting in total to £1,106,000 (2007-08: £1,134,000).

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.

The decrease in materials and supplies is accounted for by the completion of one project which incurred £149,000 of expenditure in 2007-08 but only £3,000 in 2008-09; in addition there was an £89,000 reduction in expenditure on materials for bio-controls, with some offsetting increases on other projects.

The decrease in contractors' expenditure was as a result of employing fewer contractors to meet contractual commitments and project partners' costs not being treated as Forest Research expenditure.

Note 7. Tangible Fixed Assets

	Freehold Land and Buildings	Scientific Equipment	IT Equipment	Other Machinery and Equipment	Total
	£000	£000	£000	£000	£000
Valuation:					
At 1 April 2008	13,669	2,076	650	784	17,179
Additions	-	112	13	92	217
Transfers	(16)	-	-	-	(16)
Disposals	(116)	(158)	(14)	(9)	(297)
Revaluation to current prices	(1,285)	16	(6)	-	(1,275)
Impairment	-	-	-	(2)	(2)
At 31 March 2009	12,252	2,046	643	865	15,806
Depreciation:					
At 1 April 2008	1,518	922	356	231	3,027
Provided in year	280	206	103	69	658
Disposals	(26)	(109)	(13)	(6)	(154)
Revaluation to current prices	-	6	(3)	-	3
Impairment	-	-	-	(3)	(3)
At 31 March 2009	1,772	1,025	443	291	3,531
Net book value:					
At 31 March 2009	10,480	1,021	200	574	12,275
At 31 March 2008	12,151	1,154	294	553	14,152

Fixed assets were revalued as at 31 March 2009 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 £7.1 million and £3.2 million, respectively, at 31 March 2009.

Note 8. Intangible Fixed Assets

	2008-09	2007-08
	£000	£000
Valuation		
Balance at 1 April	279	252
Additions	51	37
Disposals	(12)	-
Transfers	(3)	-
Revaluation	(3)	(10)
As at 31 March	312	279
Amortisation		
Opening balance	120	69
Depreciation in year	59	53
Disposals	(6)	-
Transfers	(2)	-
Revaluation	(1)	(2)
As at 31 March	170	120
Net book value	142	159

Intangible fixed assets relate wholly to purchased software.

Note 9. Cost of Capital

Notional cost of capital based on 3.5% of average total assets, less current liabilities employed in 2008-09 amounted to £474,335 (2007-08: £510,986).

Note 10. Stocks and Work in Progress

	2008-09	2007-08
	£000	£000
Stocks	3	3
Research work in progress	623	948
	626	951

Note 11. Debtors

11a. Analysis by type

	2008-09	2007-08
	£000	£000
Amounts falling due within one year		
EU debtors	145	295
Other Trade debtors	279	438
Other debtors	5	7
Prepayments	247	184
	676	924
Amounts falling due after one year		
House purchase loans	58	44
	734	968

11b. Intra-Government Balances

	2008-09	2007-08
	£000	£000
Balances with other central government bodies	64	255
Balances with local authorities	-	27
Intra-Government balances	64	282
Balances with bodies external to government		
Falling due within one year	612	642
Falling due after more than one year	58	44
	734	968

Note 12. Cash at bank and in hand

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

	2008-09	2007-08
	£000	£000
Opening balance at 1 April	275	248
Net change in balances	179	27
Balance at 31 March	454	275

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 13. Creditors: amounts falling due within one year

	2008-09	2007-08
	£000	£000
Payments received on account	677	324
Trade creditors	350	848
Other creditors including taxation and social security costs	13	13
	1,040	1,185

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 2009 the amount held in Forest Research Bank accounts on behalf of partners was £11,544.83 (31 March 2008: Nil).

Accounts

for the year ended 31 March 2009

Note 14. Provisions for Liabilities

	2008-09	2007-08
	£000	£000
Early departure costs		
Balance brought forward	103	170
Provided in year	1,302	4
Utilised in year	(34)	(76)
Unwinding of discount	(73)	5
Balance carried forward	1,298	103

Note 15. General Fund

	2008-09	2007-08
	£000	£000
Balance brought forward	7,086	7,495
Movement in year		
Backlog depreciation	28	86
Net (deficit) for year	(1,822)	(1,398)
Transfer of fixed assets to (-)/from other Forestry Bodies	(17)	-
Cash surplus to (-)/ deficit from Forestry Commission	(671)	392
Non-cash inter-country transfers	(5)	-
Timing between accrual and cash VAT	(4)	-
Notional cost of capital	474	511
Balance carried forward	5,069	7,086

Note 16. Revaluation Reserve

	2008-09	2007-08
	£000	£000
Balance brought forward	8,131	7,011
Revaluation surplus/(deficit) for the year ended 31 March 2009		
Land and Buildings	(1,285)	1,212
Scientific equipment	10	16
IT	(3)	(13)
Other machinery and equipment	1	(1)
Intangible assets	(2)	(8)
	(1,279)	1,206
Transfer to general fund for backlog depreciation	(28)	(86)
Balance carried forward	6,824	8,131

Note 17. Note to the Cash Flow Statement

17a. Reconciliation of net deficit to net cash flow from operating activities

	2008-09	2007-08
	£000	£000
Net (deficit) for the year excluding exceptional items	(602)	(1,398)
Early retirement compensation payments on restructuring	(1,220)	-
Adjustments for non-cash transactions		
Depreciation – tangible fixed assets	658	617
Depreciation – intangible fixed assets	59	53
Timing between accrual and cash VAT	(4)	-
Non-cash inter-country transfers	(5)	-
Loss on disposal of buildings	90	-
Loss on disposal of other assets	59	38
Notional cost of capital	474	511
Provisions		
Provided in year	1,302	4
Unwinding of discount	(73)	5
	738	(170)
Adjustments for working capital		
Decrease / (Increase) in stocks and work in progress	325	443
Decrease / (Increase) in debtors	234	(259)
Increase / (Decrease) in creditors	(145)	525
	414	709
Use of provisions	(34)	(76)
Net cash inflow from operations	1,118	463

17b. Analysis of capital expenditure

	2008-09	2007-08
	£000	£000
Tangible fixed assets	361	713
Intangible fixed assets	51	37
Total cash expenditure on fixed assets	412	750
Increase / (Decrease) in creditors	(144)	78
Capital expenditure	268	828

Forest Research restricted capital expenditure for the year to essential items only as a way of minimising a budget deficit, but plans to increase capital expenditure in future years.

Note 18. Post Balance Sheet Events

With effect from 1 April 2009, 11 staff transferred from Forest Research to the Forestry Commission's Inventory Forecasting and Operational Support unit.

During the first quarter of 2009-10 Forest Research intends to jointly launch a spin-out company with the University of Surrey in the area of land remediation; it will have the structure of a Limited Company. The company, C-Cure Solutions Limited, will have initial capital funding of £50,000 from the partners and an estimated value of £80,000. The partners will each own 34.4% of the company and the inventors will own the remaining 33.2%.

These financial statements were authorised for issue on 11 July 2009 by the Agency Accounting Officer.

Note 19. Related Party Transactions

During the year, Forest Research has had a significant number of material transactions with the Forestry Commission, Forest Enterprise country agencies and with the Department for Environment, Food and Rural Affairs, who are regarded as related parties. In addition, Forest Research has had operational transactions with other Government Departments and other central Government bodies.

£4,100 and £3,600 were paid in year on an arm's length basis to the University of Reading and the University of Southampton, respectively, for course fees and production of a database. These transactions are disclosed as Andy Moffat holds a visiting professorship at the University of Reading and Peter Freer-Smith holds a visiting professorship at the University of Southampton.

Note 20. Losses and Special Payments

Forest Research made one special severance payment, with Treasury approval, of £46,000 and a further special payment of £3,000 under appropriate authority. During the year there were no significant losses (2007-08: £nil).

Note 21. Contingent Liabilities

There were two contingent liabilities at 31 March 2009 in respect of actions by ex-employees. One action has since been withdrawn.

Note 22. Financial Instruments

22.1 Financial Instruments by category

	2008-09	2007-08
	Loans and receivables	Loans and receivables
	£000	£000
Assets as per balance sheet		
Trade and other receivables (excluding prepayments)	487	784
Cash and cash equivalents	454	275
Total	941	1,059

	2008-09	2007-08
	Other financial liabilities	Other financial liabilities
	£000	£000
Liabilities as per balance sheet		
Trade and other payables excluding statutory liabilities (excluding payments received on account)	363	861
Total	363	861

22.2 Exposure to Risk

Forest Research's activities expose it to a variety of financial risks:

- Credit risk – the possibility that other parties might fail to pay amounts due
- Liquidity risk – the possibility that Forest Research might not have funds available to meet its commitments to make payments

Because of the largely non-trading nature of its activities and the way in which government departments are financed, Forest Research is not exposed to the degree of financial risk faced by business entities.

Credit Risk

Credit risk arises from cash and cash equivalents, deposits with banks and other institutions, as well as credit exposures to customers, including outstanding receivables and committed transactions.

Forest Research does not generally allow credit for customers such that £243,000 of the £487,000 balance is past its due date for payment. £145,000 of the £243,000 relates to EU debts, which will be received in due course.

The past due amount at 31 March 2009 can be analysed by age as follows:

	£000
Less than one month	48
One to two months	13
More than two months	182
Total	243

Liquidity risk

Each financial year, the Forestry Commission makes provision for the use of resources by Forest Research for revenue and capital purposes. Each financial year, the Westminster Parliament makes provision for the use of resources by the Forestry Commission for revenue and capital purposes in the Consolidated Fund Act via the Department for Environment, Food and Rural Affairs (Defra) vote. Resources and accruing resources may be used only for the purposes specified and up to the amounts specified in the Consolidated Fund Act. The Act also specifies an overall cash authorisation to operate for the financial year. Forest Research is not therefore exposed to significant liquidity risks.

The table below analyses the financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet to contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

	2008-09		2007-08	
	Less than 1 year £000	More than 1 year £000	Less than 1 year £000	More than 1 year £000
Trade and other payables excluding statutory liabilities (excluding payments received on account)	363	-	861	-
	363	-	861	-

Market Risk

The Agency has no powers to borrow or invest surplus funds. Financial assets and liabilities are generated by day-to-day operational activities and are not held to manage the risks facing the department in undertaking its activities.

i) Cash flow and fair value interest rate risk

Forest Research has no significant interest-bearing assets or liabilities and as such income and expenditure cashflows are substantially independent of changes in market interest rates.

ii) Foreign Currency Risk

Forest Research's only exposures to foreign exchange rates are through a bank account denominated in Euros and through receipt of EU funding for contracts which are denominated in Euros.

EU contract income denominated in Euros forms only 3% of Forest Research's total income. Therefore fluctuations in exchange rates do not have a significant impact on Forest Research's financial position.

22.3 Capital risk management

The Agency has no powers to borrow or invest surplus funds.

22.4 Fair value estimation

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair value.

Note 23. Financial Performance Measures

The Agency's net deficit was £1,822,000. Financial performance from normal operating activity resulted in an operating deficit of £128,000, which, after allowing for the cost of capital, and before exceptional items, represented a cost recovery of 96.2% (2007-08: 91.3%).



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