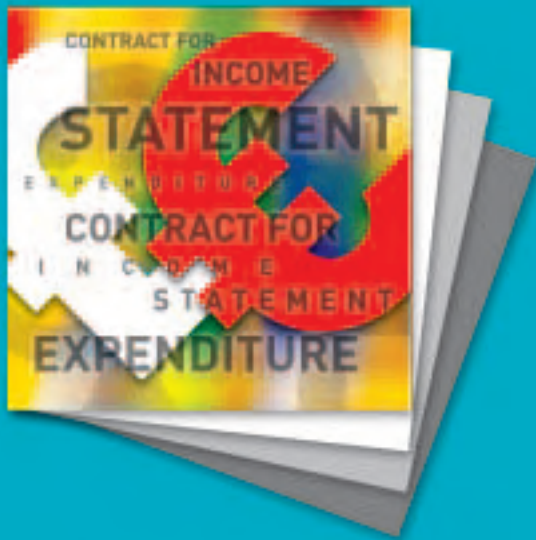


# Accounts for the year ended 31 March 2005



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## Foreword

### 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.

### 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 intra-departmental 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 England/GB accounts.

3. 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 4 of the Annual Report.

4. Review of Activities

This is Forest Research's eighth year of operation as an Agency. Forest Research produced a net operating surplus of £382,000 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 £402,000 (5.0%)
- other management costs increased by £135,000 (6.5%)
- materials and services costs increased by £256,000 (10.9%)
- income from Forestry Commission customers increased by £303,000 (2.7%)
- income from external customers increased by £462,000 (28.0%)
- the notional cost of capital increased by £25,000 (6.5%)

The net deficit for the year after the cost of capital charge of £409,000 and depreciation was £27,000, representing a cost recovery rate of 99.8%. Within this performance, unplanned early retirement costs of £135,000 were absorbed.

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 £371,000, which was funded by the Forestry Commission. The primary cause of the net cash outflow was the delay to payments for research work done for the European Commission in 2003 and 2004. The EC have contracted to make these payments during 2005–06.

Additions to fixed assets in the year were £398,000.

5. Financial Objective

Forest Research's 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.

6. Post Balance Sheet Events

There are no post balance sheet events.

7. 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 2004–05 indicates that 99.9% 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.

8. Employment Policies

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

9. Management

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

Rt. Hon. Margaret Beckett MP	<i>Secretary of State for the Department for Environment, Food and Rural Affairs</i>
Ben Bradshaw MP	<i>Parliamentary Under Secretary (Commons), Department for Environment, Food and Rural Affairs</i>

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

Jim Lynch	<i>Chief Executive</i>
Peter Freer-Smith	<i>Research Director</i>
Ken Charles	<i>Head of Human Resources and Administration</i>
Tony Cornwell	<i>Finance and IT Director</i>
Bill Mason	<i>Head of Forest Management Division</i>
Sam Evans <sup>a</sup>	<i>Head of Biometrics Division</i>
Hugh Evans <sup>a</sup>	<i>Head of Tree Health Division</i>
Chris Quine <sup>a</sup>	<i>Head of Ecology Division</i>
Andy Moffat <sup>a</sup>	<i>Head of Environmental and Human Sciences Division</i>

<sup>a</sup> New Heads of Division joined the Management Board in July 2004 following restructuring of the Agency.

The Chief Executive is appointed on a fixed term basis 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 notes 3.1 to 3.3 to these accounts.

10. 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 £21,500. There were no further assurance or other non-audit services.

Professor J.M. Lynch  
Chief Executive and Agency Accounting Officer  
9 December 2005

## 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:

- 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 *Resource accounting 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 *Government accounting* (The Stationery Office).

## Statement on Internal Control

### 1. Scope of responsibility

As Agency Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of Forest 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 *Government accounting*.

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.

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 2005 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 system 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 Head of IT Services 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 2005 and up to the signing of the accounts Forest Research has:

- Agreed to restructure the methodology and format of the Agency's risk register to more clearly identify inherent and residual risk together with the control framework in place to manage this within an acceptable level. A working group was set up to take this forward and the revised methodology is to be discussed at the next meeting of the Forestry Commission Risk Management Group at the end of July 2005.
- Endorsed a revised Forestry Commission risk policy statement presented to the Forestry Commission Executive Board in February 2005. The Forestry Commission Audit Committee agreed that the revised statement, incorporating changes debated by the Committee, should be tabled at a future meeting of the Board of Commissioners. This is planned for September 2005.
- Updated the existing Forest Research risk register to reflect newly identified potential risks and appropriate control measures for agreement by Executive Board members in June 2005.

The size and membership of the Forestry Commission Audit Committee is designed to represent all parts of the Forestry Commission. The Chief Executive of Forest Research is a member of the Committee which met three times during the year, in April, September and December 2004, to consider a range of reports from management, internal audit and external audit. As part of the governance framework, the Board of Commissioners received oral reports from the Committee Chair on business during the year and a more formal annual report on the discharge of its duties in June 2005.

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

- to provide a forum for senior management to discuss internal control and audit matters;
- to promote understanding of the internal audit role and objectives;
- to assist the Head of Internal Audit in defining the scope of audit coverage and assessing priorities.

The Committee met three times during the year, in April 2004, December 2004 and March 2005 to receive reports on internal audit activity, risk management and feedback on the work of the Audit Committee.

#### 5. Review of effectiveness

As Agency Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the 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 Executive Board, the Audit Committee and the ICC and 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 continues to provide substantial assurance that material risks to the achievement of objectives are adequately managed.

A review of the structure, interactions and functioning of the Forestry Commission's corporate governance framework was undertaken during 2004–05 by Internal Audit and the Corporate and Forestry Support Division. It covered the decision-making bodies at both Great Britain level and within countries and agencies. During the review, Internal Audit referred to two best practice guides, the draft Code of Good Practice on corporate governance in government departments and the CMPS toolkit on maximising board effectiveness. The Forestry Commission's Executive Board will now consider the recommendations before proposing changes for approval by the Board of Commissioners. A separate review will be undertaken of the structure, relationship and work of the Audit Committee and ICCs during 2005–06.

Forest Research implemented an internal reorganisation of the Agency's management structure in July 2004 with consequential appointments of new Heads of Division, a revised Research Strategy, and preparation for implementation of a formal quality assurance scheme. During 2005–06, the ongoing work will include updating management responsibility for risk to fully incorporate the new Heads of Division, where appropriate. 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. During 2005–06, the Agency will introduce a framework of Certificates of Assurance to further support my review of effectiveness of the system of internal control.

6. Significant internal control problems

The bank accounts held by the Forestry Commission serve all parts of the Commission including Forest Research. It is vital that the Forestry Commission can reconcile transactions in its accounting ledger with the associated cash transactions recorded in its commercial bank accounts and its account with the Office of the Paymaster General.

During 2004–05, the Finance and Accounting shared service did not complete the necessary periodic reconciliations between the ledger and bank accounts within the scheduled timescale. The main problem arose from system changes made in July 2004 to further automate and improve the processes involved. When the problem was identified, the Forestry Commission employed an additional, external resource to cover the backlog. Internal Audit reviewed the work and confirmed that the reconciliations as at March 2005 were complete, accurate and valid and that the system in use stood up to scrutiny. During the review, Internal Audit identified some areas for improvement to help the audit process which will feed into a wider review of banking arrangements initiated by senior management. The Forestry Commission Finance Director has confirmed that the reconciliations for 2005–06 are up to date.

Professor J.M. Lynch  
Chief Executive and Agency Accounting Officer  
9 December 2005

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

I certify that I have audited the financial statements on pages 99 to 115 under the Government Resources and Accounts Act 2000. These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages 102 to 104.

Respective responsibilities of the Agency, the Chief Executive and Auditor

As described on page 92, the Agency and Chief Executive are responsible for the preparation of the financial statements in accordance with the Government Resources and Accounts Act 2000 and Treasury directions made thereunder and for ensuring the regularity of financial transactions. The Agency and Chief Executive are also responsible for the preparation of the other contents of the Annual Report. My responsibilities, as independent auditor, are established by statute and I have regard to the standards and guidance issued by the Auditing Practices Board and the ethical guidance applicable to the auditing profession.

I report my opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Government Resources and Accounts Act 2000 and Treasury directions made thereunder, and whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. I also report if, in my opinion, the Foreword is not consistent with the financial statements, if the Agency has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

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

I review whether the statement on pages 93 to 96 reflects the Agency's compliance with Treasury's guidance on the Statement on Internal Control. I report if it does not meet the requirements specified by Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered, whether the Accounting Officer's Statement on Internal Control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the Agency's corporate governance procedures or its risk and control procedures.

Basis of audit opinion

I conducted my audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Agency and Chief Executive in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Agency's circumstances, consistently applied and adequately disclosed.

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

## Opinion

In my opinion:

- the financial statements give a true and fair view of the state of affairs of the Forest Research Agency at 31 March 2005 and of the net deficit, total recognised gains and losses and cash flows for the year then ended and have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and directions made thereunder by Treasury; and
- in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

I have no observations to make on these financial statements.

John Bourn  
Comptroller and Auditor General  
16 December 2005  
National Audit Office  
157–197 Buckingham Palace Road  
Victoria  
London SW1W 9SP

### Income and Expenditure Account for the year ended 31 March 2005

	Notes	2004-05 £000	2003-04 £000
<b>Income</b>			
Income from research, development and survey services			
Forestry Commission customers	2	11,489	11,186
Non-Forestry Commission Customers			
European Union		1,133	844
Other		980	807
Total income		<u>13,602</u>	<u>12,837</u>
<b>Expenditure</b>			
Staff costs	3	8,399	7,997
Other management costs	4	2,210	2,075
Materials and services	5	2,611	2,355
Total expenditure		<u>13,220</u>	<u>12,427</u>
Net operating surplus/(deficit)		382	410
Notional cost of capital	8	<u>(409)</u>	<u>(384)</u>
Net (deficit)/surplus for the year		<u>(27)</u>	<u>26</u>
Transferred to General Fund		(27)	26

### Statement of Total Recognised Gains and Losses for the year ended 31 March 2005

	2004-05 £000	2003-04 £000
Net (deficit)/surplus for the year	(27)	26
Revaluation surplus/(loss) for the year	404	376
Total recognised gains/(losses)	<u>377</u>	<u>402</u>

The notes on pages 102 to 115 form part of these accounts.

## Balance Sheet as at 31 March 2005

		2004-05	2003-04
	Notes	£000	£000
<b>Fixed assets</b>			
Tangible assets	6	11,114	10,731
Intangible assets	7	50	36
		<u>11,164</u>	<u>10,767</u>
<b>Current assets</b>			
Stocks and Work in Progress	9	462	536
Debtors	10	1,406	613
Cash at banks and in hand	11	548	512
		<u>2,416</u>	<u>1,661</u>
Creditors – amounts falling due within one year	12	609	715
Net current assets		<u>1,807</u>	<u>946</u>
Provisions for liabilities and charges	13	78	150
Total assets less current liabilities		<u>12,893</u>	<u>11,563</u>
<b>Taxpayers' Equity</b>			
General Fund	14	7,852	6,926
Revaluation Reserve	15	5,041	4,637
		<u>12,893</u>	<u>11,563</u>

Professor J.M. Lynch  
Chief Executive and Agency Accounting Officer  
9 December 2005

The notes on pages 102 to 115 form part of these accounts.

## Cash Flow Statement for the year ended 31 March 2005

	Notes	2004-05 £000	2003-04 £000
Reconciliation of net deficit to net cash flow from operating activities			
Net (deficit)/surplus for the year		(27)	26
Notional cost of capital	8	409	384
Depreciation	4, 6 & 7	518	485
Loss/(Profit) on disposal of assets		-	11
Decrease/(Increase) in stocks and work in progress		74	(374)
(Increase)/Decrease in debtors		(793)	418
(Decrease)/Increase in creditors		(106)	55
(Decrease)/Increase in provisions		(72)	150
Non-cash inter-country transfers		24	(16)
Less (increase) in capital creditors		(38)	(28)
Net cash (outflow)/inflow from operating activities		<u>(11)</u>	<u>1,111</u>
Cash flow statement			
Net cash (outflow)/inflow from operating activities		(11)	1,111
Capital expenditure and financial investment			
Tangible fixed assets additions		(375)	(340)
Intangible fixed assets additions		(23)	(36)
Increase in capital creditors		38	28
Capital expenditure		<u>(360)</u>	<u>(348)</u>
Total net cash (outflow)/inflow		<u>(371)</u>	<u>763</u>
Financing			
Cash deficit/(surplus) transferred to/funded by Forestry Commission		407	(251)
Increase/(decrease) in cash		<u>36</u>	<u>512</u>
Reconciliation of net cash flow to movement in net funds			
Increase in cash and bank		36	512
Net funds at 1 April 2004		512	-
Net funds at 31 March 2005		<u>548</u>	<u>512</u>

The notes on pages 102 to 115 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 2004–05 *Resource accounting manual* (RAM) issued by HM Treasury, under the historical cost convention modified by the inclusion of the valuation of assets.

The accounting policies contained in the RAM follow UK Generally Accepted Accounting Practice for companies (UK GAAP) to the extent that it is meaningful and appropriate to the public sector.

The 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, consumables, etc, of 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 2004–05.

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, the amount involved being material.

#### 1.3 Valuation of Assets

In accordance with UK GAAP, professional valuation of non-forest land and buildings shall be undertaken on a five-yearly basis with a formal review in the third year. The first five-yearly valuation shall be undertaken at 31 March 2008.

In 2004–05, professionally qualified staff employed by the Commission carried out a review into the use of the indices provided by the District Valuer. The review concluded that the use of the indices provided a reasonable restatement of the current value of non-forest land and buildings. The indices were therefore used to restate values as at 31 March 2005 and shall be used in each year until the professional valuation at 31 March 2008.

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

All revaluation surpluses and deficits are taken to the Revaluation Reserve.

#### 1.4 Depreciation

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.

Research and office equipment – 3 to 20 years.

1.5 Intangible Fixed Assets

From 1 April 2003, 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 £1500 are also treated as intangible fixed assets, on a pooled asset basis, the amount being material. Prior to 1 April 2003, all costs of software were charged to the Income and Expenditure Account in the period in which they were incurred.

1.6 Stocks and Work in Progress

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 Income and Expenditure Account.

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 Income and Expenditure account.

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 a defined benefit scheme and is 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 provided in 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 3.5%).

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. In 2002-03 these monies were disclosed on the face of the accounts. As the result of a ruling by Treasury that these are third party assets, which neither the Agency or government more generally has a direct beneficial interest in, the sums concerned are not recognised in the accounts.

## 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 £10.1 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:

	2004-05	2003-04
	£000	£000
Research, development and other services to:		
Forestry Commission	10,432	10,808
Forest Enterprise	1,057	378
	11,489	11,186

### Note 3. Staff Costs and Numbers

3.1 Employee costs during the year amounted to:

	2004-05	2003-04
	£000	£000
Wages and Salaries	6,955	6,618
Social Security Costs	539	506
Employer's Superannuation Costs	904	864
Agency Staff Costs	1	9
	<hr/>	<hr/>
	8,399	7,997

Average number of employees (full-time equivalents)

	2004-05	2003-04
	278	278

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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 2003.

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 2004-05, employers contributions of £904,000 were payable to the PCSPS (2003-04: £864,000) at one of four rates in the range 12% to 18.5% of pensionable pay, based on salary bands. The scheme actuary reviews employer contributions every four years following a full scheme valuation. From 2005-6 the salary bands will be revised and the rate will be in a range between 16.2% and 24.6%. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

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 The total remuneration, excluding pension contributions of Professor Jim Lynch, Chief Executive, the highest paid member of the Board, was £80,138.64. The Chief Executive is an ordinary member of the Pension Scheme.

3.3 The salary and pension entitlements of the management board members is shown below.

Name	1 Salary including performance pay  £000	2 Benefits in kind (rounded to the nearest £100)  £	3 Real increase in pension and related lump sum  £000	4 Total accrued pension at age 60 and at 31/3/05 and related lump sum  £000	5 CETV @ 31/3/04  £000	6 CETV @ 31/3/05  £000	7 Real increase in CETV after adjustment for inflation and changes in market investment factors  £000	8 Employer contribution to partnership pension account including risk benefit cover  £
2004–05								
Jim Lynch	80–85		0–2.5	0–5	12	31	15	0
Peter Freer-Smith	60–65	1600	0–2.5 plus lump sum of 0–2.5	15–20 plus lump sum of 50–55	233	254	5	0
Ken Charles	45–50		0–2.5 plus lump sum of 2.5–5.0	15–20 plus lump sum of 55–60	318	349	16	0
Tony Cornwell	40–45		0–2.5	0–5	51	62	9	0
Bill Mason	50–55		0–2.5 plus lump sum of 0–2.5	15–20 plus lump sum of 50–55	280	302	9	0
Sam Evans <sup>a</sup>	40–45		0–2.5 plus lump sum of 2.5–5.0	0–5 plus lump sum of 10–15	42	58	13	0
Hugh Evans <sup>a</sup>	55–60	300	0–2.5 plus lump sum of 2.5–5.0	20–25 plus lump sum of 65–70	348	382	15	0
Chris Quine <sup>a</sup>	45–50		0–2.5 plus lump sum of 2.5–5.0	10–15 plus lump sum of 40–45	162	192	18	0
Andy Moffat <sup>a</sup>	50–55		0–2.5 plus lump sum of 2.5–5.0	15–20 plus lump sum of 45–50	202	238	23	0

<sup>a</sup> New Heads of Division joined the management board in July 2004 following restructuring of the Agency.

2003–04

Jim Lynch (wef 1/7/2003)	50–55	–	0–2.5	0–5.0	0	10	9	0
Peter Freer-Smith	60–65	1000	0–2.5 plus 2.5–5.0 lump sum	15–20 plus 50–55 lump sum	225	248	13	0
Ken Charles	40–45		0.25 plus 2.5–5.0 lump sum	15–20 plus 50–55 lump sum	288	318	16	0
Tony Cornwell	40–45		0–2.5	0–5	37	49	9	0
Bill Mason	40–45		0–2.5 plus 2.5–5.0 lump sum	15–20 plus 50–55 lump sum	256	280	11	0

CETV: Cash Equivalent Transfer Value.

*Salary*

Salary includes gross salary and performance bonuses.

*Pension*

Pension benefits for the management board are consistent with other Forestry Commission employees and are provided through the Principal Civil Service Pension Scheme (PCSPS).

### *Benefits in kind*

The monetary value of benefits in kind shown in the table at note 3.3 covers benefits provided by the employer that are treated as taxable income by the Inland Revenue. They are in respect of the Car Provision for Employees Scheme.

### 3.4 Pension schemes

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

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

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

Further details about the CSP arrangements can be found at the website [www.civilservice-pensions.gov.uk](http://www.civilservice-pensions.gov.uk)

Columns 5 and 6 of the table at note 3.3 show the member's Cash Equivalent Transfer Value (CETV) accrued at the beginning and end of the reporting period. Column 7 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.

A 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 the

disclosure applies. The CETV figures, and from 2003–04 the other pension details, include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the CSP arrangements and for which the CS Vote has received a transfer payment commensurate to the additional pension liabilities being assumed. They also include any additional pension benefit accrued to the member as a result of their purchasing additional years of pension service in the scheme at their own cost. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

3.5 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 five individual members of staff at 31 March 2005. The total outstanding value of all loans (11) was £41,675.65

#### Note 4. Other Management Costs

Other management costs are stated after charging:

	2004–05	2003–04
	£000	£000
Auditors' remuneration	22	21
Travel and subsistence	468	458
Staff transfer expenses	15	20
Training	131	112
Building maintenance	411	381
Utilities	251	259
Computer supplies	85	77
Premature retirement costs	135	-
Employer liability provisions and payments	55	157
Depreciation of fixed assets	518	485
Loss on disposal of fixed assets	-	11
Other expenditure	119	94
	2,210	2,075

Included within Other Management Costs are charges from the Forestry Commission and Forest Enterprise amounting in total to £116,000 (2003–04: £82,000).

## Note 5. Materials and Services

Materials and services are stated after charging:

	2004-05	2003-04
	£000	£000
Materials and supplies	800	711
Central services from Forestry Commission	722	456
Vehicle lease charges from Forestry Commission	401	435
Contractors	335	402
Commissioned research	147	138
Publications	44	57
Protective clothing	20	18
Miscellaneous expenditure	142	138
	2,611	2,355

Included within Materials and Services are charges from the Forestry Commission and Forest Enterprise amounting in total to £1,123,000 (2003-04: £904,000).

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

	Freehold Land and Buildings	Machinery and Equipment	Total
	£000	£000	£000
Valuation:			
At 1 April 2004	9,466	3,811	13,277
Additions	95	280	375
Disposals	-	(8)	(8)
Transfers (note 14)	117	-	117
Revaluation	418	15	433
At 31 March 2005	10,096	4,098	14,194
Depreciation:			
At 1 April 2004	343	2,203	2,546
Provided in year	192	317	509
Disposals		(8)	(8)
Transfers (note 14)	4	-	4
Revaluation	23	6	29
At 31 March 2005	562	2,518	3,080
Net book value:			
At 31 March 2005	9,534	1,580	11,114
At 31 March 2004	9,123	1,608	10,731

Fixed assets were revalued as at 31 March 2005 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 £6.4 million and £2.7 million respectively at 31 March 2005.

## Note 7. Intangible Fixed Assets

	2004-05	2003-04
	£000	£000
Valuation		
Balance at 1 April	36	-
Additions	23	36
As at 31 March	59	36
Depreciation in year	9	-
Balance at 31 March	50	36

Intangible fixed assets relates wholly to purchased software. Prior to 1 April 2003 software costs were charged to the income and expenditure account in the period they were incurred. From 1 April 2003, software has been recognised as an intangible fixed asset.

## 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 2004-05 amounted to £409,421 (2003-04: £384,287).

## Note 9. Stocks and Work in Progress

	2004-05	2003-04
	£000	£000
Research Work in Progress	462	536
	462	536

## Note 10. Debtors

	2004-05	2003-04
	£000	£000
Amounts falling due within one year		
EU debtors	906	236
Other Trade debtors	251	167
Other debtors	26	21
Prepayments	201	136
	<hr/>	<hr/>
	1,384	560
Amounts falling due after one year		
House purchase loans	22	53
	<hr/>	<hr/>
	1,406	613

## Note 11. Cash at banks and in hand

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

	2004-05	2003-04
	£000	£000
Opening balance at 1 April	512	-
Net change in balances	36	512
	<hr/>	<hr/>
Balance at 31 March	548	512

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

	2004-05	2003-04
	£000	£000
Payments received on account	297	241
Trade creditors	311	441
Other creditors including taxation and social security costs	1	33
	<hr/>	<hr/>
	609	715

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 2005 the amount held in Forest Research Bank accounts on behalf of partners was £345,791.36 (31 March 2004: £348,884.55).

Note 13. Provisions for Liabilities

	2004-05	2003-04
	£000	£000
Employer liability claims		
Balance brought forward	150	-
Utilised in year	(150)	-
Provided in year	-	150
Balance carried forward	-	150
Early departure costs		
Provided in year	94	-
Utilised in year	(5)	-
Unwinding of discount	(11)	-
Balance carried forward	78	-

Note 14. General Fund

	2004-05	2003-04
	£000	£000
Balance brought forward	6,926	6523
Transfer from revaluation reserve – disposed assets	-	127
Movement in year		
Net (deficit)/surplus for year	(27)	26
Transfer of fixed assets from other Forestry Bodies	113	133
Cash deficit/(surplus) from/to Forestry Commission	407	(251)
Non-cash inter-country transfers	24	(16)
Notional cost of capital	409	384
Balance carried forward	7,852	6,926

Transfers of fixed assets from other parts of the Forestry Commission were buildings at the Northern Research Station site.

## Note 15. Revaluation Reserve

	2004-05	2003-04
	£000	£000
Balance brought forward	4,637	4,388
Transfer to General Fund – disposed assets	-	(127)
Revaluation surplus for the year ended 31 March 2005		
Land and Buildings	395	376
Machinery and Equipment	9	-
Balance carried forward	5,041	4,637

## Note 16. Related Party Transactions

During the year, Forest Research has had a significant number of material transactions with the Forestry Commission and Forest Enterprise agency 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 of Trade and Industry and the Department for Environment, Food and Rural Affairs.

Professor Jim Lynch, Chief Executive, 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 2005 was £32,207.60. Sam Evans holds a visiting professorship at the University of Sheffield, with which £5,389.74 was spent on research services. Other members of staff hold professorships at UK and foreign universities but no financial transactions took place with these in 2004-05.

## Note 17. Losses Statement

Losses totalled £4,230 from 1 case (2003-04 - £2,769 from 2 cases). Special payments totalled £12,268 from 14 cases (2003-04: £14,985 from 49 cases).

## Note 18. Financial Instruments

FRS 13: *Derivatives and other financial instruments* requires disclosure of the role which financial instruments have had during the period in creating or changing the risks an entity faces in undertaking its activities. Because of the way in which government departments are financed, the 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 19. Financial Performance Measures

The target to recover full resource costs, including capital, from internal and external customers was achieved. The Agency achieved an operating surplus of £382,000, which, after allowing for the cost of capital represented a cost recovery of 99.8% (2003-04: 100.2%).

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Plant Quality Testing [www.forestresearch.gov.uk/pqt](http://www.forestresearch.gov.uk/pqt)  
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