

# Accounts for the year ended 31 March 2003

Managing Forest Research finances



Family on a trail in Bolderwood, New Forest



Walkers on a trail through a restored open-cast site at Cyner Afan, south Wales



# Contents

<b>Foreword</b> .....	104
<b>Statement of Forestry Commission's and Chief Executive's Responsibilities</b> .....	107
<b>Statement on Internal Control</b> .....	108
<b>The Certificate and Report of the Comptroller and Auditor General to the House of Commons</b> .....	110
<b>Income and Expenditure Account</b> .....	112
<b>Statement of Total Recognised Gains and Losses</b> .....	112
<b>Balance Sheet</b> .....	113
<b>Cash Flow Statement</b> .....	114
<b>Notes to the Accounts</b> .....	115



## 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 with effect from 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 was described in the Framework Document published February 1997.

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 impact 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 addresses the issues raised in the stage one review and the devolution review and makes recommendations for their implementation, received final Ministerial approval in January 2003. A new Framework Document has been agreed and is now in place\*. A timetable for meeting the stage 2 recommendations was put in place in January 2003 and implementation is under way.

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.

\*Editorial update: published October 2003.

Forest Research has been designated a GB entity. For Resource Accounting purposes Forest Research is within the departmental boundary. Its accounts are one of a number of separate accounts produced and audited by the Commission and are consolidated into the overall Forestry Commission England/GB accounts.

### 3. Aims and Objectives

The aim of Forest Research as set out in the new Framework Document 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 6 in the Annual Report.

### 4. Review of Activities

This is Forest Research's sixth year of operation as an Agency. Forest Research produced a net operating surplus of £628,000 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 £208,000 ( 3%)
- other management costs increased by £14,000 (0.7%)
- materials and service costs reduced by £184,000 (7%)
- income from Forestry Commission customers reduced by £320,000 ( 3%)
- income from external customers increased by £417,000 (33%).

The net surplus for the year after cost of capital of £620,000 and adjusting for the over provision of depreciation in previous years, was £8,000, representing a cost recovery rate of 100.1%.

After adjusting the total surplus for items not involving the movement of cash and for capital expenditure and income, the net cash inflow for the year was £501,000.

Additions to fixed assets in the year were £505,000.

### 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 other than the outcome of the Forestry Devolution Review noted at paragraph 2.

### 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 2002–03 indicates that 99.3% 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 Commission during the year were:

Rt. Hon. Margaret Beckett MP     *Secretary of State for the Department for the Environment, Food and Rural Affairs*

Elliot Morley MP     *Parliamentary Secretary (Commons) for the Department for the Environment, Food and Rural Affairs*

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

Jim Dewar     *Chief Executive (until 31 May 2002)*

Peter Freer-Smith     *Chief Research Officer and Acting Chief Executive (from 1 June 2002)*

Ken Charles     *Personnel and Administration Officer*

Tony Cornwell     *Head of Finance and Planning*

Bill Mason     *Acting Head, Northern Research Station (from 1 June 2002)*

The Chief Executive is appointed following public advertising of the post. Professor J.M. Lynch was appointed Chief Executive for a five-year period from 1 July 2003.

## 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.

### **Professor J.M. Lynch**

Chief Executive and Agency Accounting Officer

25 November 2003

## 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 Departmental Accounting Officer, has designated the Chief Executive of Forest Research as the Accounting Officer for the Agency. His relevant responsibilities as 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. As Agency Accounting Officer I have responsibility for maintaining a sound system of internal control that supports the achievement of the Agency's policies, aims and objectives, set by the Agency's Ministers, whilst safeguarding the public funds and assets for which I am personally responsible, in accordance with the responsibilities assigned to me. Control of certain activities is carried out by the Forestry Commission on the Agency's behalf, and in respect of those areas I place reliance on the Forestry Commission's Statement on Internal Control.
2. The system of internal control is designed to manage rather than eliminate the risk of failure to achieve policies, aims and objectives: it can therefore only provide reasonable and not absolute assurance of effectiveness.
3. The system of internal control is based on an ongoing process designed to identify the principal risks to the achievement of the Agency's policies, aims and objectives, to evaluate the nature and extent of those risks and to manage them efficiently, effectively and economically. This process has been in place for the year ended 31 March 2003 and up to the date of approval of the Annual Report and Accounts and accords with Treasury guidance.
4. We have agreed and promulgated a risk management policy. Working with responsible managers, we have developed a risk register for the principal risks to the achievement of Agency policies, aims and objectives. These identify the risks, the adequacy of the controls and any corrective action required. This has been endorsed by the Agency's Management Board and we have carried out a full risk and control assessment before reporting on the year ended 31 March 2003.
5. As Agency Accounting Officer I also have responsibility for reviewing the effectiveness of the system of internal control. The Agency has established the following processes which operated during the financial year:
  - The Management Board met monthly to consider the plans and strategic direction of the Agency. The Management Board received regular reports from managers on the steps taken to manage risks in their areas of responsibility including progress on key projects. The risk management policy ensures that the Board includes risk management within its remit and formally tasks it with its review.
  - The Agency has an Audit Committee, which reviewed matters concerning risk and internal control within the Agency. The Forestry Commission had an overarching Audit Committee chaired by a non-executive Forestry Commissioner. Its remit included advice on the effectiveness of risk management and control throughout the Commission and its Agencies, including Forest Research. The work of the internal and external auditors is currently reported annually to the full Board of Commissioners; in future this will be expanded to cover the full business of the overarching Forestry Commission Audit Committee.
  - The Forestry Commission has an Internal Audit Unit, which operates to Government Internal Audit Standards. They submit regular reports, which include the Head of Internal Audit's independent opinion on the adequacy and effectiveness of the Agency's system of internal control together with recommendations for improvement.
  - The topic of risk management was introduced into a series of financial awareness seminars attended by staff of all grades with financial responsibilities. The series was completed by December 2002 and the seminar has now become part of the internal training prospectus available to all staff.

6. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within the Agency who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letters and other reports.
7. From 1 April 2003 the system of internal control has been redesigned, primarily to reflect the change in structure across the Commission following the Forestry Devolution Review. This will involve the ongoing work of the overarching Audit Committee, on which the Agency will have a representative, and the introduction of an Internal Control Committee for the Agency to advise the Accounting Officer on the effectiveness of risk management and control.

**Professor J.M. Lynch**

Chief Executive and Agency Accounting Officer

25 November 2003

## 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 112 to 124 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 115 to 116.

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

As described on page 105, 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 other contents of the Annual Report. My responsibilities, as independent auditor, are established by statute and guided by the Auditing Practices Board and the auditing profession's ethical guidance.

I report my opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the 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 108 to 109 reflects the Agency's compliance with Treasury's guidance 'Corporate Governance: 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.

### **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 Forest Research at 31 March 2003 and of the surplus, 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

11 December 2003

National Audit Office

157–197 Buckingham Palace Road

Victoria

London SW1W 9SP

## Income and Expenditure Account for the year ended 31 March 2003

		<b>2003</b>	2002
	<b>Notes</b>	<b>£000</b>	£000
<b>Income</b>			
Income from research, development and survey services			
Forestry Commission customers	2	<b>10,833</b>	11,153
Non-Forestry Commission Customers			
European Union		<b>510</b>	556
Other		<b>1,165</b>	702
<b>Total income</b>		<b>12,508</b>	12,411
<b>Expenditure</b>			
Staff costs	3	<b>7,528</b>	7,320
Other management costs	4 & 5	<b>1,899</b>	1,885
Materials and services	5	<b>2,453</b>	2,637
<b>Total expenditure</b>		<b>11,880</b>	11,842
<b>Net operating surplus/(deficit)</b>		<b>628</b>	569
Notional cost of capital	7	<b>(620)</b>	(556)
<b>Net surplus/(deficit) for the year</b>		<b>8</b>	13
Transferred to General Fund		<b>8</b>	13

Statement of Total Recognised Gains and Losses  
for the year ended 31 March 2003

	<b>2003</b>	2002
	<b>£000</b>	£000
Net surplus/(deficit) for the year	<b>8</b>	13
Revaluation surplus/(loss) for the year	<b>500</b>	1,280
<b>Total recognised gains/(losses)</b>	<b>508</b>	1,293

*The notes on pages 115 to 124 form part of these accounts.*

## Balance Sheet as at 31 March 2003

		<b>31 March</b>	31 March
		<b>2003</b>	2002
	<b>Notes</b>	<b>£000</b>	£000
<b>Fixed assets</b>			
Tangible assets	6	<u>10,378</u>	<u>9,768</u>
<b>Current assets</b>			
Stocks and Work In progress	8	162	259
Debtors	9	1,031	471
Cash at banks and in hand	10	<u>518</u>	<u>1</u>
		<b>1,711</b>	731
<b>Current liabilities</b>			
Creditors – amounts falling due within one year	10	<u>1,178</u>	<u>742</u>
<b>Net current assets/(liabilities)</b>		<u><b>533</b></u>	<u>(11)</u>
<b>Total assets less current liabilities</b>		<b>10,911</b>	9,757
<b>Taxpayers Equity</b>			
General Fund	11	6,523	5,869
Revaluation Reserve	12	4,388	3,888
<b>Total Taxpayers Equity</b>		<u><b>10,911</b></u>	<u>9,757</u>

**Professor J.M. Lynch**

Chief Executive and Agency Accounting Officer

25 November 2003

*The notes on pages 115 to 124 form part of these accounts.*

## Cash Flow Statement for the year ended 31 March 2003

	<b>2003</b>	2002
<b>Notes</b>	<b>£000</b>	£000
<b>Reconciliation of net surplus to net cash flow from operating activities</b>		
Net surplus/(-) deficit for the year	<b>8</b>	13
Notional cost of capital	7	556
Depreciation	4 & 6	389
(Profit) / loss on disposal of assets	<b>5</b>	
Decrease/(-)Increase in stocks and work in progress	<b>97</b>	(228)
Decrease/(-)Increase in debtors	<b>(560)</b>	133
Increase/(-)Decrease in creditors	<b>436</b>	481
<b>Net cash inflow from operating activities</b>	<b>995</b>	1,360
<b>Capital expenditure</b>		
Payments to acquire tangible fixed assets	<b>(503)</b>	(513)
<b>Non-cash inter-country transfers</b>		
	<b>9</b>	9
<b>Total net cash inflow</b>	<b>501</b>	856
<b>Financing</b>		
Cash Surplus transferred to Forestry Commission	<b>501</b>	856
<b>Reconciliation of net cash flow to movement in net funds</b>		
Increase in cash and bank	<b>517</b>	
Net funds at 1 April 2002	<b>1</b>	1
Net funds at 31 March 2003	<b>518</b>	1

*The notes on pages 115 to 124 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 2002–03 *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 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.

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

Land and buildings were subjected to a triennial revaluation as at 31 March 2002 by professionally qualified land agents employed by the Forestry Commission following the principles set out in the *Royal Institute of Chartered Surveyors Appraisal and Valuation Manual*. Research and office equipment is revalued every three years using prevailing current prices for replacement items. Between revaluations, tangible asset values are updated annually using appropriate indices.

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 – 4 to 20 years

#### 1.5 Intangible Assets

There are no intangible assets in the accounts. Purchased software and software licences are charged to the Income and Expenditure Account in the year in which they occur.

#### 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 are 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 6% in real terms on the average carrying amount of all assets, less liabilities. This rate has been reduced to 3.5% with effect from 1 April 2003.

### **1.10 Corporation Tax**

Forest Research is not subject to corporation tax.

### **1.11 Value Added Tax (VAT)**

The Forestry Commission is registered for 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. Exchange differences are taken to the Income and Expenditure Account. Exchange rate gains as at 31 March 2003 amounted to £30,000.

### **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.

### **1.15 Compensation Scheme**

The Forestry Commission is required to meet the additional cost of benefits beyond the normal pension scheme benefits in respect of employees who retire early. For Agency staff leaving after 1 April 1999, excepting those who left during 2000–01 under the provisions of the Modernising Government Fund, future liabilities for monthly 'compensation' payments will be shown in the Agency's accounts. To date, there have been no early retirements meeting this criterion.

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

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 £9.5 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.

Total income from Forestry Commission customers consisted of:

	<b>2003</b>	2002
	<b>£000</b>	£000
Research, development and other services to:		
Forestry Commission	<b>9,797</b>	10,096
Forest Enterprise	<b>1,036</b>	1,057
	<b>10,833</b>	11,153

**Note 3.** Staff Costs and Numbers**3.1** Employee costs during the year amounted to:

	<b>2003</b>	2002
	<b>£000</b>	£000
Wages and Salaries	<b>6,285</b>	5,999
Social Security Costs	<b>424</b>	424
Employer's Superannuation Costs	<b>797</b>	894
Agency Staff Costs	<b>22</b>	3
	<b>7,528</b>	7,320

To comply with RAM 2002–03 agency staff costs have been included with staff costs.

Until 30 November 2002 the Agency's staff were covered by the Forestry Commission Pension Scheme which was an unfunded defined benefit pension scheme. Employer's superannuation contributions, calculated as a percentages of pensionable pay, were paid to the Forestry Commission Pension Scheme and included in the Income and Expenditure Account. The employer's contribution rates were set at 15% to 22% according to grade, as determined by the Government Actuary. A full actuarial valuation was carried out at 31 March 1999.

From 1 December 2002 the Forestry Commission Pension Scheme was subsumed into the Principal Civil Service Pension Scheme (PCSPS) which is an unfunded multi-employer defined benefit pension. Employer's superannuation contributions, calculated as percentages of pensionable pay, are paid to the PCSPS and included in the Income and Expenditure Account. The employers contribution rates are set at 12%–18.5%, according to salary band. For 2002–03 employers contributions of £797,000 were payable (2001–02: £894,000).

Employees joining after 1 October 2002 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** Jim Dewar retired from the post of Chief Executive on 31 May 2002. The total remuneration, excluding pension contributions, of Peter Freer-Smith, Acting Chief Executive from 1 June 2002, the highest paid member of the management board, was £61,228.72 (2001–02: £50,579). The Acting 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.

	Age	Salary	Real increase in pension at age 60	Total accrued pension at age 60 at 31 March 2003	Benefits in kind
<b>2002–03</b>	Years	£000	£000	£000	£000
Jim Dewar (retired 31 May 2002)	55	10–15	0–2.5	25–30	–
Peter Freer-Smith <sup>a</sup>	47	60–65	0–2.5	10–15	800
Ken Charles <sup>a</sup>	57	35–40	0–2.5	15–20	–
Tony Cornwell <sup>b</sup>	59	35–40	0–2.5	0–5	–
William Mason <sup>a</sup>	54	40–45	0–2.5	10–15	–
<b>2001–02</b>	Years	£000	£000	£000	£000
Jim Dewar	54	60–65	0–2.5	25–30	–
Peter Freer-Smith	46	50–55	0–2.5	10–15	1800
Ken Charles	56	35–40	0–2.5	15–20	–
Tony Cornwell	58	35–40	0–2.5	0–5	–

<sup>a</sup>Opted to join classic scheme. <sup>b</sup>Opted to join premium scheme.

*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 above 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**

From 1 October 2002, civil servants may be in one of three statutory based 'final salary' schemes—classic, premium or classic plus. New entrants after 1 October 2002 may choose between membership of premium or joining a good quality 'money purchase' stakeholder-based arrangement with a significant employer contribution (partnership pension account).

**(a) Classic scheme**

Benefits 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. Members pay contributions of 1.5% of pensionable earnings. On death, pensions are payable to the surviving spouse at a rate of half the member's pension. On death in service, the scheme pays a lump sum benefit of twice pensionable pay and provides a service enhancement on computing the spouse's pension. The enhancement depends on length of service and cannot exceed 10 years. Medical retirement is possible in the event of serious ill health. In this case, pensions are brought into payment immediately without actuarial reduction and with service enhanced as for widow(er) pensions.

**(b) Premium scheme**

Benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike the classic scheme, there is no automatic lump sum, but members may commute some of their pension to provide a lump sum up to a maximum of 3/80ths of final pensionable earnings for each year of service or 2.25 times pension if greater (the commutation rate is £12 of lump sum for each £1 of pension given up). For the purposes of pension disclosure the tables assume maximum commutation. Members pay contributions of 3.5% of pensionable earnings. On death pensions are payable to the surviving spouse or eligible partner at a rate of 3/8ths of the members pension (before any commutation). On death in service, the scheme pays a lump sum benefit of three times pensionable earnings and provides a service enhancement on computing the spouse's/partner's pension. The enhancement depends on length of service and cannot exceed 10 years. Medical retirement is possible in the event of serious ill health. In this case, pensions are brought into payment immediately without actuarial reduction. Where the member's ill health is such that it permanently prevents them undertaking any gainful employment, service is enhanced to what would have been accrued at age 60.

**(c) Classic plus**

This is a variation of premium, but with benefits in respect of service before 1 October 2002 calculated broadly as classic.

**(d) Partnership pension account**

This is a stakeholder-type arrangement where the employer pays a basic contribution of between 3% and 12.56% (depending on the age of the member) into a stakeholder pension product. The employee does not have to contribute but where they do, these will be matched by the employer up to a limit of 3% in addition to the employer's basic contribution. Employers also contribute a further 0.8% of pensionable salary to cover the cost of risk benefit cover (death in service and ill health retirement). The member may retire at any time between the ages of 50 and 75 and use the accumulated fund to purchase a pension. The member may choose to take up 25% of the fund as a lump sum.

**3.5** The average number of employees ( full time equivalents) during the year was 280 (2002: 280).

**3.6** 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 9 loans with an outstanding balance of £2,500 or more to individual members of staff at 31 March 2003. The total value of all loans (15) was £85,340.

**Note 4. Other Management Costs**

Other management costs are stated after charging:

	<b>2003</b>	2002
	<b>£000</b>	£000
Loss on disposal of fixed assets	<b>5</b>	–
Auditors' Remuneration	<b>19</b>	22
Depreciation of Fixed Assets	<b>389</b>	405
Travel and Subsistence	<b>460</b>	464
Staff Transfer Expenses	<b>68</b>	59
Training	<b>134</b>	120
Building Maintenance	<b>431</b>	382
Utilities	<b>220</b>	230
Computer Supplies	<b>96</b>	101

**Note 5. Charges from the Forestry Commission**

Included within Other Management Costs and Materials and Services are charges from the Forestry Commission and Forest Enterprise amounting in total to £1,018,580 (2002: £1,118,597).

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

**Note 6. Fixed Assets**

	<b>Freehold Land and Buildings £000</b>	<b>Machinery and Equipment £000</b>	<b>Total £000</b>
<b>Valuation:</b>			
At 1 April 2002	<b>8,650</b>	<b>5,033</b>	<b>13,683</b>
Additions	114	391	505
Disposals		(112)	(112)
Transfers		26	26
Revaluation adjustment	500		500
<b>At 31 March 2003</b>	<b>9,264</b>	<b>5,338</b>	<b>14,602</b>
<b>Depreciation:</b>			
At 1 April 2002	<b>331</b>	<b>3,584</b>	<b>3,915</b>
Provided in year	168	221	389
Disposals		(107)	(107)
Transfers		27	27
<b>At 31 March 2003</b>	<b>499</b>	<b>3,725</b>	<b>4,224</b>
<b>Net book value:</b>			
At 31 March 2003	8,765	1,613	10,378
At 31 March 2002	8,319	1,449	9,768

Fixed assets were revalued as at 31 March 2003 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 £5.8 million and £2.6 million respectively at 31 March 2003.

Depreciation costs on machinery and equipment have been reduced by £54,000 to adjust for over provisions in earlier years.

**Note 7. Cost of Capital**

Notional cost of capital based on 6% of average total assets less current liabilities employed in 2002/03 amounted to £ 620,068.

**Note 8. Stocks and Work in Progress**

	<b>2003</b>	2002
	<b>£000</b>	£000
Research Work in Progress	<b>162</b>	259
	<b>162</b>	259

**Note 9. Debtors**

	<b>2003</b>	2002
	<b>£000</b>	£000
Amounts falling due within one year		
EC debtors	<b>457</b>	242
Other Trade debtors	<b>350</b>	126
Other debtors	<b>51</b>	30
Prepayments	<b>100</b>	2
	<b>958</b>	400
Amounts falling due after one year – house purchase loans	<b>73</b>	71
	<b>1,031</b>	471

**Note 10. Creditors: amounts falling due within one year**

	<b>2003</b>	2002
	<b>£000</b>	£000
Payments received on account	<b>350</b>	280
Trade creditors	<b>311</b>	454
Sums held on behalf of partners in EC projects	<b>517</b>	
Other creditors including taxation and social security costs		8
	<b>1,178</b>	742

Forest Research acts as co-ordinator for a number of projects partially funded by the European Commission (EC). The duties of co-ordinators include receiving EC funds on behalf of partners for onward transmission once work programmes have been approved. These sums are recorded on the face of these accounts as creditors and bank balances. At 31 March 2003 the amount held in Forest Research Bank accounts on behalf of partners was £517,386.92. This has subsequently all been transferred to the partners concerned.

**Note 11. General Fund**

	<b>2003</b>	2002
	<b>£000</b>	£000
Balance brought forward	<b>5,869</b>	6,160
Movement in year		
Net surplus/(-) deficit for year	<b>8</b>	13
Transfer of fixed assets from/(-) to other Forestry Bodies	<b>1</b>	(13)
Cash surplus to Forestry Commission	<b>(501)</b>	(856)
Monies held on behalf of partners	<b>517</b>	9
Non-cash inter-country transfers	<b>9</b>	
Notional cost of capital	<b>620</b>	556
<b>Balance carried forward</b>	<b>6,523</b>	5,869

**Note 12. Revaluation Reserve**

	<b>2003</b>	2002
	<b>£000</b>	£000
Balance brought forward	<b>3,888</b>	2,608
Revaluation surplus for the year ended 31 March 2003		
Land and Buildings	<b>500</b>	1,280
<b>Balance carried forward</b>	<b>4,388</b>	3,888

**Note 13. Contingent Liabilities**

Contingent liabilities have been recognised at 31 March 2003 in respect of claims for compensation for personal injury from two employees. One claimant is seeking damages of £43,000 and no detailed schedule of loss has yet been received in the other case. Both cases are ongoing. The information usually required by FRS12 is not disclosed, in line with DAO/GEN 19/02, on grounds that it can be expected to be prejudicial.

**Note 14. 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.

## **Note 15. 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, income from these sources being no more than 4% of the Agency's total income.

## **Note 16. 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 £628,000 which, after allowing for the cost of capital, represented a cost recovery of 100.1% (2002: 100%).

## **Contact addresses**

### **Forest Research**

Alice Holt Lodge  
Farnham  
Surrey, GU10 4LH  
Tel: 01420 22255  
Fax: 01420 23653  
E-mail: [research.info@forestry.gsi.gov.uk](mailto:research.info@forestry.gsi.gov.uk)

### **Forest Research**

Nothern Research Station  
Roslin, Midlothian, EH25 9SY  
Tel: 0131 445 2176  
Fax: 0131 445 5124  
E-mail: [research.info@forestry.gsi.gov.uk](mailto:research.info@forestry.gsi.gov.uk)

### **Technical Development Branch**

Forest Research  
Ae Village, Dumfries  
DG1 1QB  
Tel: 01387 860264  
Fax: 01387 860386  
E-mail: [research.info@forestry.gsi.gov.uk](mailto:research.info@forestry.gsi.gov.uk)

### **Website**

[http://www.forestry.gov.uk/forest\\_research](http://www.forestry.gov.uk/forest_research)

## **Advisory services**

**Disease, Diagnosis and Advisory Service** - E-mail: [ddas@forestry.gsi.gov.uk](mailto:ddas@forestry.gsi.gov.uk)

**Plant Quality Testing** - E-mail: [colin.edwards@forestry.gsi.gov.uk](mailto:colin.edwards@forestry.gsi.gov.uk)

**Seed Testing** - E-mail: [seedtesting@forestry.gsi.gov.uk](mailto:seedtesting@forestry.gsi.gov.uk)

**Foliar Analysis/Fertiliser Prescription Service** - E-mail: [foliar@forestry.gsi.gov.uk](mailto:foliar@forestry.gsi.gov.uk)

**Library, Photographic and Information Services** - E-mail: [library@forestry.gsi.gov.uk](mailto:library@forestry.gsi.gov.uk)



## Forest Research

**Northern Research Station**  
Roslin, Midlothian EH25 9SY  
Tel: 0131 445 2176  
Fax: 0131 445 5124  
[http://www.forestry.gov.uk/forest\\_research](http://www.forestry.gov.uk/forest_research)

**Alice Holt Lodge**  
Farnham  
Surrey GU10 4LH  
Tel: 01420 22255  
Fax: 01420 23653

Published by TSO (The Stationery Office) and available from:

### TSO

(Mail, telephone and fax orders only)  
PO Box 29, Norwich NR3 1GN  
General enquiries: 0870 600 5522  
Order through the Parliamentary Hotline Lo-call: 0845 7 023474  
Fax Orders: 08700 600 5533  
E-mail: [book.orders@tso.co.uk](mailto:book.orders@tso.co.uk)  
Internet: <http://www.tso.co.uk/bookshop>

### TSO Shops

71 Lothian Road, Edinburgh EH3 9AZ  
Tel: 0870 606 5566 Fax: 0870 606 5588

123 Kingsway, London WC2B 6PQ  
Tel: 020 7242 6393 Fax: 020 7242 6394

68-69 Bull Street, Birmingham B4 6AD  
Tel: 0121 236 9696 Fax: 0121 236 9699

9-21 Princess Street, Manchester M60 8AS  
Tel: 0161 834 7201 Fax: 0161 833 0634

16 Arthur Street, Belfast BT1 4GD  
Tel: 028 9023 8451 Fax: 028 9023 5401

The Stationery Office Oriel Bookshop  
18-19 High Street, Cardiff CF1 2BZ  
Tel: 029 2039 5548 Fax: 029 2038 4347

### The Parliamentary Bookshop

12 Bridge Street, Parliament Square,  
London SW1A 2JX  
Telephone orders: 020 7219 3890  
General enquiries: 020 7219 3890  
Fax orders: 020 7219 3866

### Accredited Agents

(see Yellow Pages)  
and through good booksellers

**£23.00**

ISBN 0-10-292625-5



9 780102 926255