



ANNUAL REPORT AND ACCOUNTS 2007-08

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Introduction by Dr Calum MacDonald, Chair, National Committee Scotland

This year saw a change of administration in Holyrood and a consequent need to ensure that forestry is contributing effectively to the new government's national priorities.

We are working to make Scotland 'Greener', with the contribution of forestry to tackling climate change, improved habitat networks and better flood management being leading examples. In the towns and cities of Scotland, as well as in its rural communities, we are developing woodland as a welcoming and therapeutic environment for schools, health services and local recreation, so making our nation Safer, Stronger and Healthier.

Woodland-based learning - from our work with 20% of Scotland's schools to the 20 Modern Apprentices taken on by Forest Enterprise Scotland¹ this year – is helping to make Scotland 'Smarter'.

With the timber industry now employing about 26,000 people, directly and indirectly, and the growing value of the wider forestry sector now estimated at £760 million, forestry is making an increasingly significant contribution to making Scotland 'Wealthier'. Finally, with the relaunch of the National Forest Land Scheme to take into account the right to create new crofts, we are supporting local communities and helping to make Scotland 'Fairer'.

Over the past year, the Scottish Forestry Strategy² has become more embedded in people's thinking throughout the industry in Scotland. Our recent progress report on 2007-08's targets and activities indicates that some 86% of the actions in the Implementation Plan have been achieved – not only by Forestry Commission Scotland but also by others among the 46 action partners named in the Strategy.

In looking ahead to the coming year, it is clear that helping to reduce the impact of climate change is going to be an increasingly important area of focus for FCS. The consultation on our Climate Change Action Plan³ was launched in January and the coming year will be one of delivery on that plan.

Delivery on this and on our other policies is, of course, dependent on co-operation with our partners in the forestry sector and beyond. This year has also seen a new and welcome emphasis on cross-boundary working within Government, especially within the SEARS 'family'. We are determined to continue that focus in the coming year.

The amount of land planted under trees, the quantity and quality of timber products from our forests, the uses we make of our woodlands, the number of people visiting and enjoying them, and the contribution we expect them to make to the great concerns of our day, such as tackling climate change, all these have increased over the past year. Our job in the Forestry Commission is to make sure that that growth continues and that it benefits all of Scotland's people, whether they live in towns, cities or in rural communities.

¹ The national forest estate is managed by Forest Enterprise Scotland, which is part of Forestry Commission Scotland.

² www.forestry.gov.uk/aboutfcs

³ <http://www.forestry.gov.uk/ccapscotland>

Aithisg Bhliadhna is Cunntasan

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

Am bliadhna chunnacas atharrachadh san riaghaltas ann an Holyrood agus mar sin dh'fheumte dèanamh cinnteach gun robh coilltearachd a' cur gu h-èifeachdach ri prìomhachasan nàiseanta an riaghaltais ùir.

Tha sinn ag obair airson Alba a dhèanamh nas Uaine, le coilltearachd an sàs ann a bhith a' strì an aghaidh blàthachadh na cruinne, tha leasachadh lionra de dh'àrainnean is rianachd tuileachaidh nan deagh eisimpleirean air seo. Sna bailtean beaga agus mòra air feadh Alba, cho math ris na coimhearsnachdan dùthchail, tha sinn a' leasachadh choilltean mar àrainnean a bhios nan àitean a bhios tarraingeach do sgoiltean agus a bhios nan àitean a thogas spiorad sgoilearan, is a chleachdas seirbheisean slàinte agus buidhnean cleasachd ionadail, agus mar sin a' dèanamh ar dùthaich nas sàbhailte, nas làidire agus nas fhallaine.

Tha foghlam stèidhichte air coilltean – eadar an obair a tha sinn a' dèanamh le 20% de sgoiltean Alba gu na 20 Nua-fhoghlamaichean a dh'fhasd lomairt Coilltean Alba¹ am bliadhna– a' cuideachadh le bhith dèanamh Alba nas comasaich.

Le gnìomhachas an fhiodha a-nis a' fastadh mu 26,000 neach, dìreach agus gu neo-dhìreach, is luach roinn na coilltearachd a' fàs gu mu £760 millean nota, tha coilltearachd a' sìor chur ri bhith a' dèanamh Alba nas beairtiche. Agus, le bhith a' cur air bhog às ùr Sgeama Nàiseanta Fearann nan Coilltean gus gabhail a-steach an còir air croitean ùra a chruthachadh, tha sinn a' toirt taic do choimhearsnachdan ionadail is a' cuideachadh ann a bhith a' dèanamh Alba nas cothromaich.

Thar na bliadhna a chaidh seachad, tha Ro-innleachd Coilltearachd na h-Alba² air fhisge a-steach ann am beachd-smuaineachadh dhaoine a tha an sàs sa gnìomhachas ann an Alba. Tha an aithisg adhartas againn a chaidh ullachadh o chionn ghoirid mu na builean is gnìomhan ann an 2007-2008 a' comharrachadh gu bheil 86% de na gnìomhan sa Phlana Gnìomhachais air tighinn gu buil – chan ann dìreach fo làimh Ùghdarras Coilltearachd Alba ach cuideachd an co-bhoinn ris na 46 com-pàirtichean gnìomhachaidh a chaidh an ainmeachadh san Ro-innleachd.

Ann a bhith a' coimhead air adhart chun ath-bliadhna, tha e follaiseach gu bheil cuideachadh le bhith lùghdachadh buaidh blàthachadh na cruinne gu bhith mar dhleastanas cudromach do FCS. Chaidh an co-chomhairleachadh air ar Plana Gnìomh Atharrachadh Aimsir³ a chur air bhog san Fhaoilleach agus an ath-bhliadhna bidh sinn a' leantainn oirnn a' libhrigeadh a' phlana sin.

Tha ar comas a bhith a' libhrigeadh seo agus ar poileasaidhean eile gu mòr an eisimeil ar co-obrachadh le ar com-pàirtichean anns an roinn choilltearachd agus nas fharsainge na sin. Am bliadhna tha sinn air faicinn tuilleadh cudrom ga chur taobh a-staigh an Riaghaltais air co-obrachadh thairis air crìochan, gu h-àraidh taobh a-staigh SEARS agus tha sinn a' cur fàilte air sin. Tha e nar barail gun lean sinn air adhart leis an fhòcas sin thairis air an ath-bhliadhna.

Tha am meudachd de dh'fhearann a tha fo chraobhan, càileachd agus cuideam nan stuthan fiodha a thathar a' faighinn bho na coilltean againn, am feum a tha sinn a' dèanamh de ar coilltean, an àireamh de dhaoine a tha gan tadhal agus gam mealtainn agus na tha sinn a' sùileachadh bhuapa ann a bhith a' cur ris na gnothaichean a tha a' cur dragh oirnn san là an-diugh, mar a bhith a' strì an aghaidh blàthachadh na cruinne, uile air meudachadh thar na bliadhna a chaidh seachad. Is e an obair a tha againn aig Ùghdarras na Coilltearachd a bhith dèanamh cinnteach gu lean an fhàs seo agus gum bi e na bhuannachd do mhuintir Alba air fad, ge bith an ann sna bailtean beaga no mòra no ann an coimhearsnachdan dùthchail a tha iad a' fuireach.

¹ Tha oighreachd nàiseanta nan coilltean air a ruith le lomairt Coilltean Alba, a tha na phàirt de Ùghdarras Coilltearachd Alba.

² www.forestry.gov.uk/aboutfcs

³ <http://www.forestry.gov.uk/ccapscotland>

WHO WE ARE AND WHAT WE DO

Status

Forestry Commission Scotland came into being on 1 April 2003. It serves as the forestry directorate of the Scottish Government and is responsible to Scottish Ministers, advising on and implementing forestry policies. Through Forest Enterprise Scotland, it also manages the public forest estate to deliver public benefits. The Minister for Environment is answerable to the Scottish Parliament for the overall policies and performance of Forestry Commission Scotland.

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

Strategy

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

Aims and Objectives

The aims and objectives of Forestry Commission Scotland flow from the Scottish Forestry Strategy 2006 and from the wider objectives of Scottish Ministers. As a predominately rural activity, forestry has a major part to play in delivering rural development, but also has an increasingly important role in helping to deliver other Scottish Government objectives to make Scotland a wealthier and fairer, healthier, safer and stronger, smarter and greener country. To deliver these strategic objectives the following Scottish Forestry Strategy outcomes and objectives, which are relevant in urban as well as rural areas, have been set:

- **Improved health and well-being of people and their communities** by assisting community participation; enhancing opportunities for health and enjoyment; and contributing to growth in learning skills;
- **Competitive and innovative businesses contributing to the growth of the Scottish economy** by developing a more efficient and competitive timber supply chain; facilitating the markets for forest products; facilitating rural business diversification and development; and increasing the contribution of forestry to tourism.
- **High quality, robust and adaptable environment** by helping to tackle climate change; contributing positively to soil, water and air quality; contributing to landscape quality; protecting and promoting the historic environment and cultural heritage; and helping to protect and enhance biodiversity.

Our values – how we behave in fulfilling our objectives

- **Teamwork** – Working as teams with colleagues and others to ensure that trees, woods and forests meet the needs of people in each part of the country.
- **Professionalism** - Enjoying and taking pride in our work, achieving high standards of quality, efficiency and sustainability.
- **Respect** – Treating one another with consideration and trust, recognising each person's contribution.

- **Communication** – Being open, honest and straightforward with colleagues and others, as willing to listen as to tell.
- **Learning** – Always learning, from outside the Forestry Commission as well as from within.
- **Creativity** – Not being afraid to try new ways of doing things.

Funding

The 2007-08 annual budget for Forestry Commission Scotland is approved by the Budget (Scotland) Act 2007 and revised by:

- the 2007-08 Autumn Budget Revision to the Budget (Scotland) Act for the year ending 31 March 2008; and
- the 2007-08 Spring Budget Revision to the Budget (Scotland) Act for the year ending 31 March 2008.

KEY PERFORMANCE INDICATORS

The Key Agency Targets set by the Forestry Commission National Committee for Scotland for 2007-08 for Forest Enterprise Scotland to manage and the actual outturns were:

Aim	Key Target	Measure	Achieved	Target
Manage the forest estate in accordance with the principles of sustainable forest management	a. Percentage of the national forest estate independently certified as being sustainably managed.	%	100% www.forestry.sgs.com/forestry_services_index_v2.htm	100%
	b. No major Corrective Actions		None	None
Maintain effective planning and consultation systems	c. Percentage of the national forest estate covered by approved Forest Design Plans	%	100%	100%
	d. National Forest Estate coverage with Forest District Strategic Plans	%	100% www.forestry.gov.uk/forestry/infid-6pelhd	100%
Maximise the value to the Scottish Economy of the estate's timber resource	e. Volume of wood harvested in relation to the production programme	km ³ (+/-5%)	3067 km ³ (-5.6%)	3249 km ³
	f. Area of thinning in relation to thinning plan	ha (+/-10%)	6391 ha (-6.3%)	6823 ha
	g. Average stocking density in 5 year old restock sites targeted for future timber production	minimum stems per ha	2460	2500 stems per ha
Make best use of other forest products and estate assets	h. Maximise the opportunity for net income from development activities **	£M	£3.4 million	£4.3 million

Aim	Key Target	Measure	Achieved	Target
Conserve and enhance the biological diversity and cultural heritage values of the estate	i. Percentage of scheduled sites and listed structures and managed in accordance with approved plans *	%	100%	100%
	ii. Number of Scheduled Ancient Monuments (SAMs) with approved plans	number	325 (98%)	332
	iii. Number of Sites of Special Scientific Interest (SSSIs) with approved plans	number	152 (100%)	152
	iii. Listed Structures	number	30	30
	- Identify and agree over next 3 years with Historic Scotland the condition and remedial work required for individual structures [Target in 07/08 is 33% i.e. 10 Listed Structures]	%	33%	33%
Improve the appearance of the estate	j. Area of the National Forest Estate surveyed for UKBAP priority habitats	ha	23,184 ha	20,000 ha
	k. i. Area of woodland identified using low impact silvicultural systems (LISS)	%	15%	12%
	ii. The area where a first intervention has taken place under a LISS designation	%	Achieved (59%)	Identify and quantify area
	iii. Percentage of the National Forest Estate covered by "Forester GIS restock plans"	%	67%	60%
Increase the opportunities for everyone to enjoy visits to the estate	i. Progress with the establishment of a comprehensive dataset for the numbers, nature and needs of those visiting the national forest estate (Target in 07/08 is 100%, i.e. all 14 forest districts surveyed)	%	100% Achieved – All 14 Forest Districts surveyed and final report produced (http://www.forestry.gov.uk/forestry/infid-7d9fn7)	100%
Help communities to benefit from the estate	m. Periodic independent evaluation of the change in the perception of community partnerships on their participation in partnership arrangements with FES.	-	[07/08 suspended pending repeat evaluation in 09/10]	-

Aim	Key Target	Measure	Achieved	Target
Maintain an efficient and effective organisation	n. Performance against agreed financial targets *	%	Not achieved	100%
	i. Cash deficit (+/- 1%)	£M	£35.1 million	£36.2 million
	ii. Operating Deficit/ (Surplus)not to exceed £4m	£M	-£1.5 million	-£0.9 million
	iii. Net Capital Expenditure/(income) (+/- 5%)	£M	£5.6 million	£9.8 million
	o. Unit cost of selected operations *	%	Not achieved	100%
	i. Total Direct Production (DP) Unit Cost (excl. Haulage) not to exceed	£/m ³	£11.46 per m ³	£11.10 per m ³
	ii. Total restocking Activity not to exceed	£/ha	£2012 per ha	£1900 per ha
	iii. Deer Management u/cost not to exceed ***	£/ha	£7.14 per ha	£7.82 per ha

Notes on Targets:

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

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

*** o iii is calculated using gross forest area

MANAGEMENT COMMENTARY

Review of the year

This year Forestry Commission Scotland (FCS) has shown how forestry contributes to the new government's national priorities, and has continued to develop and strengthen partnerships across the public, private and voluntary sectors. The following list highlights some of the most significant items. The Forestry Commission Scotland Annual Review, published separately, provides further detail and information on these and other achievements.

Cross cutting items

The Scottish Forestry Strategy's first Implementation Plan was published during 07/08. This set out the actions which the 46 action partners, including FCS, agreed to deliver in the first year. At the end of the year we published a report on our progress which showed that 86% of the actions had been achieved and that indicator development is well underway.

The new Scottish Rural Development Programme (SRDP) was developed during the year to deliver more integrated support for land-based industries. Under the SRDP, Rural Development Contracts will make a suite of economic, environmental and social support measures available to all land-use sectors, with applications being assessed against regional priorities.

New woodland creation was at historically low levels this year, due in part to uncertainties around CAP reform and the SRDP. The new Scottish Government indicated a desire to see rates of woodland creation increase to around 10,000 ha per year to deliver a whole range of benefits and work towards achieving the Scottish Forestry Strategy aspiration of 25% woodland cover by the second half of the century.

A more integrated approach to land use support is being pioneered in the initiative – Scotland's Environmental and Rural Services or SEARS. The organisations involved; the Animal Health Agency, Cairngorms National Park Authority, the Crofters Commission, Deer Commission for Scotland, FCS, Loch Lomond and the Trossachs National Park Authority, Scottish Environment Protection Agency, Scottish Natural Heritage and the Scottish Government Rural Payments and Inspections Directorate are all working together to offer a 'one-stop-shop' for delivery of services to the rural sector. The service will be introduced in 2008.

In early 2008, Forest Enterprise Scotland published a suite of District Strategic Plans, and a National Framework Strategic Plan, for consultation. These lay out priorities and directions for future management of the national forest estate in accordance with the directions laid out in the Scottish Forestry Strategy (pages 57-58). They also provide the basis for a repositioning programme involving sale of national forest land that is making a low contribution to delivery of public benefits, and investment of these resources in land that has the potential to make a significant contribution to the Scottish Forestry Strategy outcomes.

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

- Carried out research into what climate change will mean for Scottish forestry.
- Funded a one-off woodland creation scheme for the 2007-08 planting season targeted at proposals demonstrating the greatest contribution to climate change action.
- Convened the Woodfuel Task Force to consider how to increase the supply of wood for renewable energy production.
- Consulted on a Climate Change Action Plan for the forestry sector.

- Produced a DVD to show how trees and forests can contribute to the fight against climate change.
- Developed a carbon calculator to estimate the carbon sequestered by newly established woodlands.
- Supported the Scottish Government to deliver the £7.5 M Scottish Biomass Support Scheme.

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

- Launched our Timber Development Programme.
- Commissioned a book on timber architecture to act as an inspiration to architects and encourage the use of timber in construction.
- Administered the Strategic Timber Transport Fund, which aims to reduce the impact of timber lorries on Scotland's rural roads.
- Set up a Private Sector Timber Production Forecast working group to help improve the timber production forecast.

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

- Helped to develop the Scottish Working Woods label to distinguish and guarantee products made in Scotland from Scottish wood products.
- Hosted the World Downhill Mountain Biking championship – held for the first time ever in the UK.
- Worked with Lantra to develop a one-stop-shop for training for people in the land-based sector.
- Encouraged school leavers into forestry with a recruitment roadshow and a Modern Apprenticeship scheme.

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

- Completed Phase 1 of our Woods In and Around Towns initiative which, over three years, brought more than 8,000 hectares of urban woodland into active management and created a further 1000 hectares of new urban woodland.
- Developed our interaction with the planning system to help us make the most of the opportunities that the planning system offers for using forestry at a landscape scale.
- Handed national forest land to communities through the National Forest Land Scheme and actively facilitated the development of woodland crofts.
- Supported the Forest Education Initiative through an annual networking event and taking on a new Forest Education Initiative co-ordinator.
- Helped unemployed people to gain the skills and confidence they need to get back to work by undertaking projects in a woodland setting.
- Worked with Fife Council to develop 'Forest Kindergarten', an initiative to encourage nurseries to make the most of outdoor play and exploration.

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

- Published a Recreation Framework to set out our vision, priorities and focus for action for access, recreation and tourism on the national forest estate.

- Organised 'touchwood', a programme of inspirational events to celebrate Scotland's Year of Highland Culture.
- Produced walks guides and upgraded routes to help people explore their local woods in Glasgow, in response to research into the barriers to walking and enjoyment of the outdoors.
- Organised a Green Exercise Conference together with Health Scotland.
- Studied the opportunities for, and barriers to, access to woodlands for disabled people and piloted a training course and guidance materials on disabled accessibility.
- Helped school children have fun and get active in their local woods through woodland visits and mountain biking PE lessons.

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

- Created a Forest Habitat Network plan for Edinburgh and the Lothians as a buffer to the increase in housing infrastructure.
- Appointed a new archaeologist to look after the sites and monuments in our care.
- Commenced work on restoring the landscape at Loch Katrine, under the umbrella of Scottish Forest Alliance – a partnership between BP, as the major provider of funds, FCS, Woodland Trust Scotland and RSPB Scotland.
- Worked with the Scottish Environment Protection Agency (SEPA) on both the Water Framework Directive and River Basin Management Plans for Scotland.

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

- Made good progress in work to survey native woodlands, getting to a level of some 55% of Scotland's native woods being digitally mapped.
- Launched a new project, in conjunction with SNH and RSPB Scotland and with funding from the Heritage Lottery Fund, to improve the habitat for black grouse in Galloway Forest Park.
- Worked with SNH, Deer Commission Scotland and the Scottish Government to develop a £5million programme for improving designated nature sites.
- Published advice and encouragement for land managers and land owners to create, restore and manage native woodlands in a new booklet - "Action for Scotland's Native Woods".

Other Disclosures

Personal Data Related Incidents

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

Future work

In the coming year we will be working closely with other partners from 'Scotland's Environmental and Rural Services' to join up our activities. A key priority will be the delivery of grants through the Scottish Rural Development Programme. Within each of the themes of the Scottish Forestry Strategy, the most important areas of work for Forestry Commission Scotland in the coming year are:

Climate change: Effort will be focused on increasing forestry's preparedness for climate change and in achieving the forest sector carbon saving targets that form part of Scotland's climate change programme, and any subsequent measures to support the forthcoming Scottish Climate Change Bill and Climate Change Adaptation Strategy for Scotland. To increase preparedness the research evidence base will be improved to enable informed decisions about sustainable forest management, increasing the resilience of forest ecosystems, environmental protection (such as sustainable flood management techniques) and reducing our carbon footprint. The FC will lead a co-ordinated programme of raising awareness about forestry's role in responding to climate change.

Timber: We will concentrate on improving the accuracy of the wood production forecast from Scotland's forests. An Industry Working Group will be set-up to determine the most efficient and effective methods of incorporating data from the private sector forests. We will re-launch the Strategic Timber Transport Scheme after making any relevant adjustments to improve the scheme. Encouraging the creation of both conifer and broadleaved productive woodlands under the new Rural Development Contracts will be a priority, and we will seek to develop co-operation between the timber sector and research providers on ways to increase use of timber and improve quality of timber products.

Business development: The shortage of skills remains an issue and the Forest Education Initiative, Modern Apprenticeship Programme, and the Sector Skills Agreement will all be used to help meet the sector's skills needs. Implementing Wood Fuel Taskforce recommendations and publication of a Renewable Heat Strategy will help sustain progress on biomass development. A range of new measures in the Scottish Rural Development Programme will offer opportunities for forestry business diversification. Encouraging uptake in the forestry sector and providing support and advice in the early stages of the new programme will be important.

Community development: The Woods In and Around Towns (WIAT) initiative remains a key delivery mechanism and WIAT will evolve to reflect the equalities agenda, green networks and other priorities. Interaction with the land-use planning system will be a key work area, building on progress in 2007/08. We need to consolidate outdoor learning in the Curriculum for Excellence and highlight woodland's role in delivery. The emphasis will be on developing the confidence of teachers to use local woods for local learning. We will develop a framework for community engagement at all levels of participation. The National Forest Land Scheme (NFLS) will be embedded in this framework.

Access and health: We will continue to communicate to potential users that woodland and greenspace are safe settings for health-promoting physical activity, and will embrace equality by encouraging appropriate use by the full diversity of the Scottish population. We will work in partnership with the health sector and local organisations to deliver accessible woodlands near to where people live and work and seek to understand how best to manage woodland to encourage health promoting physical activity.

Environmental quality: Priorities for the coming year include building the evidence base of the potential role that forestry can play in protecting and enhancing the quality of Scotland's water, soil and air resource; raising the level of awareness and appreciation of all of Scotland's landscapes for their contribution towards health and well-being, community regeneration, tourism, rural diversification, and economic development; and bringing together all those with an interest and knowledge of our cultural heritage to increase the sharing, enhancement and further development of information on Scotland's historic environment.

Biodiversity: We will be improving our evidence base and best practice guidance. At a strategic level we will be putting additional effort into habitat network planning tools and guidance for integrated land use planning; using native species in climate change adaptation and mitigation; and larger scale action on non-native invasive species such as rhododendron.

CORPORATE SOCIAL RESPONSIBILITY

Environmental Sustainability

The Commission's Greenerways Project is about how we manage our sustainable development commitments in terms of our forests, our staff and places of work. The Commission is progressing well towards stage 2 of accreditation for an Environmental Management System under BS8555, and this is an important driver for helping to ensure that Greenerways becomes embedded into working practices.

The project has generated enthusiasm across all our staff in being seen as environmentally responsible, and to be able to manage the FC organisation with the same concern for the environment that we show in our management of forests.

In the last year we have become increasingly aware of our own environmental footprint and are actively developing policies for FC buildings to be made of wood from our own forests. We are beginning to install wood burning heating in our buildings, again using material from our own estate. Externally we have become ambassadors in promoting wood as a renewable material and have been engaging in the climate change debate.

Greenerways is still in its early stages but the network of local Champions has been established and many local activities have been implemented, with strict targets set for 2008/09 for activities such as business travel (5% reduction in emissions per year for the next three years) and energy use (3% reduction per year, starting from 01 April 2008).

Climate Change

Climate change is one of the most serious threats facing the world today and is already happening. Forestry has a fundamental part to play, with global deforestation being part of the problem, and reforestation and use of forest products being an important part of the solution.

Forestry Commission Scotland has prepared a draft Climate Change Action Plan 2008-10. It sets out what we will do to increase the contribution and response of Scottish forestry to the challenges of climate change. It focuses on what needs to be done both as early actions and to increase future preparedness.

A public consultation on this draft plan was launched by Michael Russell, Minister for Environment on 11th March 2008 and delegates at the annual Scottish Forestry Forum were the first to debate the proposals. A copy of the Action Plan can be found on the website: <http://www.forestry.gov.uk/ccapscotland>.

In 2008, the Scottish Climate Change Bill and Climate Change Adaptation Strategy for Scotland will be launched and we will continue to work on raising the profile of forestry's role as a potential solution.

FCS will lead a co-ordinated communications programme in Scotland of raising awareness about forestry's role in responding to climate change. The new DVD "A convenient truth?" shows how trees and forests can contribute to the fight against climate change and it will be an important means for us to communicate our climate change messages. Further details about what the Forestry Commission is doing to mitigate against climate change can be found on our website: <http://www.forestry.gov.uk/forestry/infid-6umkar>.

Social Sustainability

Towards the end of the year, FCS published the results of a monitoring survey which estimates that almost 9 million visits are made to the national forest estate each year and almost £40 million is being pumped into the Scottish economy by people who have travelled to an area specifically to visit a forest.

The *All Forests Visitor Monitoring Survey* was the largest ever survey of its kind into the public use of Scotland's national forests. It was the first time that the entire national forest estate, including more remote woodlands, was covered in such a survey, as previously only key high usage sites were monitored.

The Environment Minister, Michael Russell, recognised the significance of the results and highlighted the importance of national forest estate as a natural asset which plays a key role in supporting the timber industry and providing a vital conservation habitat for many animals.

It is clear from the results that forest recreation supports many aspects of Scottish life and that forest tourism and leisure is a growing sector which can help boost healthy lifestyles and bring added revenue to the economy. The data will help forest managers concentrate their resources, improve their facilities and help make a visit to the forest a more enjoyable experience.

Some key findings in the survey include:

- the most popular activities undertaken in the Commission's forests were dog walking (50%), other walking (29%) and cycling/mountain biking (11%);
- the average spend across all visitors was £17 per person;
- almost half of visitors were on a local day trip from home (49%), while a third were on a longer day trip and almost a fifth (18%) visited a Commission forest while on a holiday or short break;
- 78% of visitors travelled to the forest by car, while 18% walked and less than 1% used public transport;
- 85% of visitors were from Scotland while one in ten was from England;
- 16% of visitors were aged under 16 and 17% of visitors were aged 60 or over.

Partnerships and communities

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

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

Staff

People Initiatives

Following publication of our new People Strategy and Action Plan, work has progressed on several high priority projects. We have begun a review of our Postfilling and Recruitment policies and procedures. We have also purchased a new eRecruitment system, which will significantly improve our efficiency and effectiveness in attracting applicants for vacancies and in administering the postfilling and recruitment process. We have completed a review of our Pay & Reward Strategy, to set out the Forestry Commission's approach to pay and reward over the next 5 years. We have begun a review of our Discipline & Grievance policies and procedures.

Equality and Diversity

The Forestry Commission recognises that in order to deliver the many varied benefits that forestry can provide for everyone, our staff need to be representative of the British population today. We therefore aim to employ people with a wide range of appropriate skills, knowledge and behaviours from a diversity of backgrounds, in order to benefit from the fact that diversity in the workforce adds real value to the business by incorporating different experiences, viewpoints, cultures and ideas.

We are committed to equality of opportunity in all areas of employment. We will ensure we treat all staff fairly, with dignity and respect, regardless of race, disability, gender, age, sexual orientation and religion and belief. Diversity is fundamental not only to our employment practices but also to the way in which we deliver services, develop policy and engage with communities.

We are committed to developing an organisation in which fairness and equality of opportunity are central to our business. We will promote diversity in policy development and deliver services that meet the needs of all social groups. To this end we are developing more effective means of ensuring that our research and statistical analysis are evidenced-based and that they represent the needs of all sectors of the population. We will work to develop better links with all stakeholders especially 'hard to reach' groups, to help us both develop, monitor and evaluate our policies and services.

The Forestry Commission is committed to embedding and mainstreaming equality and diversity. This is reflected in our People Strategy which has the overarching objective:

'We want to better reflect the society we serve as a Government department. Diversity is central to good people management and modern organisational development'.

The Forestry Commission has now appointed a specific Equality and Diversity team. Among the main tasks for 2007/08 was drafting a specific Equality and Diversity Strategy to articulate the Commission's approach in this area, and to demonstrate our commitment to delivering practical outcomes over the next 5 years.

The team has also carried out the requisite monitoring and analysis of the Forestry Commission's workforce. The Race, Disability and Gender Monitoring Reports can be found on our Internet site, www.forestry.gov.uk, along with our current Equality Schemes. The Race Equality Scheme is currently under review.

Learning and Development

Learning and Development (L&D) has continued to embed the organisational changes made last year and a new permanent head of L&D was appointed in December 2007. L&D has been heavily involved with the implementation of the People Strategy, specifically:

- Working in partnership with outside providers to design and deliver four levels of diversity training.
- Finalising the new competency framework and beginning to integrate it within our HR processes.
- Developing proposals for a GB wide Management Development Programme, building on the success of the FC Scotland pilot, but again integrating the new competency framework.
- Realigning our L&D portfolio to reflect the competency framework and tendering to establish a framework agreement with external L&D providers.
- Supporting the new Graduate Programme.
- Mapping the People Strategy against the standards defined in the Investors in People Profile tool in advance of our forthcoming Investors in People (IiP) reassessment.
- Developing events to improve our recruitment and post filling procedures.

In July 2007 we recruited a full time Development Advisor to support the FC Scotland Management Development Programme (MDP). 55 staff at pay band 4 level have now been through the full assessment cycle and are working to individual Learning Plans.

The Technical Training team has been rolling out a wide range of conventional courses for FCS staff as well as a significant amount of consultancy work with individual or small numbers of staff requiring assistance with systems software such as e-fin, our financial accounting system.

Health and Safety

Policy

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

Programmes

During the year the Safety, Health & Environment team introduced systems to improve the way we manage our employees' exposure to vibration and noise at work. Next year we plan to contribute to a project to improve the way we manage health and safety in construction work.

Accidents

The following figures set out the incidence of reportable accidents (those causing incapacity for more than three days) for all staff in 2007-08 and the preceding years:

Year	No of accidents per 100 employees
2007-08	1.42
2006-07	1.32*
2005-06	1.12*
2004-05	1.24*

* 2006-07 and prior years restated to show the Scotland position only with figures now excluding GB Business Units.

LEADERSHIP AND GOVERNANCE

Ministers

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

Ross Finnie MSP	Minister for Environment and Rural Affairs (until May 2007)
Sarah Boyack MSP	Deputy Minister for Environment and Rural Development (until May 2007)
Richard Lochhead MSP	Cabinet Secretary for Rural Affairs and the Environment (from May 2007)
Michael Russell MSP	Minister for Environment (from May 2007)

National Committee for Scotland

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

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

*Member of the Forestry Commission Executive Board

Forestry Commission Scotland Management Board

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

Dr Bob McIntosh	Director, Forestry Commission Scotland
Paul Snaith	Head of Corporate Services, Forestry Commission Scotland
Simon Hodge	Head of Policy, Forestry Commission Scotland
James Simpson	Head of Grants & Licences, Forestry Commission Scotland
Jean Lindsay	HR Business Partner (Scotland) (from May 2007)
Hugh Insley	Chief Executive, Forest Enterprise Scotland

Forest Enterprise Scotland Management Board

The Agency Management Board gives strategic direction and leadership to the forest districts within Scotland. The membership for 2007-08 was:

Hugh Insley	Chief Executive (Chair)
Les Bryson	Head of Operations
Alan Stevenson	Communities, Recreation and Tourism Manager
Laurie Tyson	Head of Estates
Moira Baptie	Environment Manager
Alan Duncan	Finance Manager
Stephanie Atwell	Human Resources Manager
Nicol Sinclair	Planning Manager
Michael Ansell	Director, Forestry Business Units

Forestry Commissioners and Permanent Head of the Department

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

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

Audit and Risk Committee

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

Non-executive members:

Martin Gale (Chair)
Simon Pepper
Simon Rennie
Dr Calum MacDonald (from 5 March 2008)

Additionally the following will also normally attend meetings:

Accountable Officer, Forestry Commission Scotland;
Agency Accountable Officer, Forest Enterprise Scotland;
Head of Corporate Services (Scotland's Finance Director);
Head of Internal Audit or a representative; and
representatives of Audit Scotland.

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

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

Corporate Governance

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

Risk Management Policy

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

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

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

Principal risks, uncertainties and opportunities

Forestry Commission Scotland measures its risks against the following criteria:

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

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

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

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

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

- a) Potential failure to meet Scottish Climate Change Programme targets through lack of woodland creation mitigated by maximising approval of woodland creation grants and providing support for wood energy supply chain development.
- b) Potential failure to meet forestry expansion aspirations through insufficient woodland creation, low uptake of grant schemes, poor land availability or uncertainty in agricultural and land use sectors mitigated by targeting woodland creation to maximise public benefits and by extending the FES carbon afforestation programme.
- c) Potential failure to halt biodiversity decline in woodland species mitigated by proactively engaging with key site owners and encouraging entry into Land Management Contracts and landscape scale partnerships.



RESOURCE ACCOUNTS 2007-08

FINANCES

Basis of Accounts

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

Departmental Accounting Boundary

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

Financial review

Forestry Commission Scotland receives funding from the Scottish Government, as shown in the 2007-08 Spring Budget Revision to the Budget (Scotland) Act, to deliver its agreed financial, strategic and operational aims and objectives. The main programme costs cover:

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

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

- Private sector response to claiming grants can be influenced by market conditions, tax concessions and grant structure;
- Fluctuations in the timber market can impact on Forest Enterprise Scotland's net funding with over 50% of gross expenditure being met from sales of timber;
- With net assets of £759 million, revaluation of the estate significantly influences the cost of capital charge. During the year the cost of capital charge increased by 26% to just over £23million;
- Programme expenditure (excl. FES funding) recorded an increase of £3.9 million compared to last year, principally from the increase in cost of capital charge. Support for forestry and the rural economy, including grants paid to private woodland owners and expenditure on forestry development programmes sustained last year's level of activity.
- Additional resource funding was provided to Forest Enterprise Scotland of £1.5 million to undertake additional bio-diversity projects and to make provision for public liability claims. Forest Enterprise Scotland received net resource funding from Forestry Commission Scotland of £30.8 million to manage the forest estate and to deliver increased programmes of work in providing a wide range of public benefits.

Net assets increased from £571 million to £759 million, primarily due to the increased valuation of the forest estate and other land of £189 million but also by new acquisitions of land and forest estate of £6.6 million. FCS disposed of around £6.6 million of forest estate and other land during the year. The cash balance of £3.4million represented the cash underspend for 2007-08 and will be repaid to the Scottish Government during 2008-09. Net assets were represented by a general fund of £377 million and a revaluation reserve of £383 million on the forest estate and land which will only be realised on the disposal of land.

Significant variances against estimate

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

£m	Estimate	Outturn	Difference
Total resource	98.4	96.2	2.2
Net cash requirement	74.6	71.2	3.4

The net cash difference mainly arises from reduced expenditure on Timber Transport projects delayed to 2008/09 and extra timber income. The cash total includes a variance on capital where a £7.3 million increase in income from fixed asset disposals has been re-invested in new land acquisitions for the climate change programme. These all feed through to the total resource variance but are partly offset by increased non-cash cost of capital and an increase in public liability provision.

Other Disclosures

Research and Development

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

Pensions

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

Supplier Payment Policy

The Forestry Commission complies with the Government's Better Payment Practice Code. Unless otherwise stated in the contract, we aim to pay within 30 days from the receipt of goods and services or the presentation of a valid invoice, whichever is the later. A sample analysis for 2007-08 indicates that 97.7% (2006-07 99.5%) of invoices were paid within the due date. Arrangements for handling complaints on payment performance are notified to suppliers on contracts. No interest was paid under the Late Payment of Commercial Debts (Interest) Act 1998.

Auditors

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

Disclosure of audit information to the auditors

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

R McIntosh
Non-Statutory Accountable Officer
21 July 2008

REMUNERATION REPORT

Remuneration policy

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

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

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

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

Employment contracts

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

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

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

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

	Date of current contract/letter	Unexpired term (months*)
Dr Calum MacDonald	1/4/2006	12
Martin Gale	1/5/2006	13
Richard Wakeford	n/a	n/a
Simon Pepper	27/6/2006	15
Simon Rennie	27/11/2006	20

Audited element of remuneration report

Salary and pension entitlements

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

	2007-08		2006-07	
	Salary	Benefits in kind	Salary	Benefits in kind
	£000	to nearest £100	£000	to nearest £100
Dr Bob McIntosh	110-115	-	100-105	-
Paul Snaith	55-60	-	50-55	-
Simon Hodge	80-85	-	70-75	-
Jean Lindsay	20-25 ¹	-	-	-
James Simpson	45-50	-	25-30 ²	100

The salary and pension entitlements of Hugh Insley, a member of the National Committee for Scotland, are borne and disclosed in the Forest Enterprise Scotland Annual Report and Accounts 2007-08 as he is the Chief Executive of Forest Enterprise Scotland.

Salary

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

Benefits in kind

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

Transactions with committee and board members

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

	Balance at 1 April 2007	Balance at 31 March 2008	Maximum balance during the year
	£000	£000	£000
Paul Snaith	3	1	3

¹ Figure quoted is for the period 1 April 2007 to 19 November 2007. Full year equivalent is 40-45.

² Figure quoted is for the period 16 October 2006 to 31 March 2007. Full year equivalent is 40-45.

Pension benefits

	Accrued pension at age 60 at 31 March 2008 and related lump sum £000	Real increase in pension and related lump sum at age 60 £000	CETV at 31 March 2008 £000	CETV at 31 March 2007 £000	Real increase in CETV £000	Employer contribution to partnership pension account Nearest £100
Bob McIntosh	40-45 plus LS of 125-130	0-2.5 plus LS of 2.5-5.0	971	828	29	-
Paul Snaith	30-35 plus LS of 0-5	0-2.5 plus LS of 0-2.5	553	467	17	-
Simon Hodge	15-20 plus LS of 45-50	0-2.5 plus LS of 0-2.5	263	214	10	-
Jean Lindsay	15-20 plus LS of 45-50	2.5-5.0 plus LS of 7.5-10.0	263	179	55	-
James Simpson	10-15 plus LS of 25-30	0-2.5 plus LS of 0-2.5	185	140	18	-

Civil Service Pensions

Pension benefits are provided through the Civil Service pension arrangements. From 30 July 2007, civil servants may be in one of four defined benefit schemes: either a 'final salary' scheme (classic, premium or classic plus), or a 'whole career' scheme (nuvos). These statutory arrangements are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under classic, premium, classic plus and nuvos are increased annually in line with changes in the Retail Prices Index (RPI). Members joining from October 2002 may opt for the appropriate defined benefit arrangement or a good quality 'money purchase' stakeholder arrangement with a significant employer contribution (partnership pension account).

Employee contributions are set at the rate of 1.5% of pensionable earnings for classic and 3.5% for premium, classic plus and nuvos. Benefits in classic accrue at the rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years' pension is payable on retirement. For premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum (but members may give up (commute) some of their pension to provide a lump sum). Classic plus is essentially a hybrid with benefits in respect of service before 1 October 2002 calculated broadly as for classic and benefits for service from October 2002 calculated as in premium. In nuvos a member builds up a pension based on his pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.30% of their pensionable earnings in that scheme year and the accrued pension is uprated in line with RPI. In all cases members may opt to give up (commute) pension for lump sum up to the limits set by the Finance Act 2004.

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

The accrued pension quoted is the pension the member is entitled to receive when they reach pension age, or immediately on ceasing to be an active member of the scheme if they are already at or over pension age. Pension age is 60 for members of classic, premium and classic plus and 65 for members of nuvos. Further details about the Principal Civil Service Pension Scheme can be found at the website www.civilservice-pensions.gov.uk

Cash Equivalent Transfer Values

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

Real increase in CETV

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

Remuneration of Non-Executives

The non-executive Forestry Commissioners and members of the National Committee for Scotland received the following remuneration for their services during the year ended 31 March 2008:

	2007-08	2006-07
	£000	£000
Simon Pepper	4	5

The remuneration of Dr Calum MacDonald and Martin Gale, non-executive Forestry Commissioners and members of the National Committee for Scotland, are borne and disclosed in the Forestry Commission Great Britain/England Annual Report and Accounts 2007-08. Richard Wakeford, a member of the National Committee for Scotland, is employed by the Scottish Government as Director General, Environment and does not receive any additional remuneration from Forestry Commission Scotland. Simon Rennie, a non-executive member of the National Committee for Scotland, is a Director of the Central Scotland Forest Trust which received payments from Forestry Commission Scotland for his service on the National Committee and is disclosed as a related party transaction.

R McIntosh
Non-Statutory Accountable Officer
21 July 2008

STATEMENT OF ACCOUNTABLE OFFICER'S RESPONSIBILITIES

Under the Forestry Act 1967, Forestry Commission Scotland is required to prepare, for each financial year, resource accounts detailing the resources acquired, held or disposed of during the year and the use of resources by the department during the year. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the department, the net resource outturn, resources applied to objectives, recognised gains and losses and cash flows for the financial year.

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

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

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

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

STATEMENT ON INTERNAL CONTROL

1. Scope of Responsibility

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

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

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

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

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

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

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

2. Purpose of the System of Internal Control

The system of internal control is designed to manage risk rather than eliminate the risk of failure to achieve the Forestry Commission Scotland's policies, aims and objectives. It can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify the principal risks to the achievement of Forestry Commission Scotland's policies, aims and objectives; to evaluate the nature and extent of those risks and to manage them efficiently, effectively and economically. The process within Forestry Commission Scotland accords with the SPFM and has been in place for the year ended 31 March 2008 and up to the date of approval of the annual report and accounts, and accords with guidance from the Scottish Ministers.

3. Risk and Control Framework

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

Risk management is the responsibility of every member of staff in Forestry Commission Scotland. Everyone has a role to play in managing the risks within their own area of authority. Risk awareness and responsibility lies in parallel with the structure of Forestry Commission Scotland's objectives. At every level of objective there is equivalent delegation of responsibility of associated risk.

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

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

More generally, Forestry Commission Scotland is committed to a process of continuous development and improvement: developing systems in response to any relevant reviews and developments in best practice in this area. In particular, in the period covering the year to 31 March 2008 and up to the signing of the accounts, Forestry Commission Scotland has:

- Consolidated the risk management process by organising a meeting of representative senior and line managers from Forestry Commission Scotland and Forest Enterprise Scotland in December 2007 to review the Forestry Commission Scotland risk register. This meeting was facilitated by our private sector risk management consultant and considered current content, scoring, adequacy of controls and identified omissions. The resultant fully updated Risk Register was considered and approved by the FCSMB during May 2008.
- Participated in the Commission wide, Risk Management Group (RMG), which met on 2 August 2007, 8 November 2007 and 26 March 2008 to consider and ensure continued development of risk management and business continuity planning and the sharing of best practice across the Forestry Commission as a whole.
- As an important stage in the development of Business Continuity Plans (BCPs) contributed to the process of external consultancy developing Business Continuity Plan (BCP) templates for the Forestry Commission during 2007-08 to enable a series of BCPs specifically matched to Forestry Commission Scotland's needs to be produced and in place during 2008-09. A BCP template for cost centres and the Grants and Licences activity has been produced and detailed plans relating specifically to Forestry Commission Scotland's needs will be produced by unit managers by September 2008. The purpose of the plans is to ensure that there are procedures in place to facilitate the recovery of Forestry Commission Scotland's critical business activities or key enabling capabilities should a break in continuity occur. This process is also part of the embedding of risk and its management at the cost centre management level ensuring common standards across the organisation in Scotland.

The Audit and Risk Committee (ARC) in its current form which was set up and approved by the Forestry Commission Scotland National Committee in October 2006, met in July 2007, October 2007, March 2008 and June 2008. At each meeting they considered a range of reports from management, and from internal and external audit.

The ARC membership consists of 4 Non-Executives, with Forestry Commission Scotland's Director, Agency Chief Executive and Head of Corporate Services, the Head of Internal Audit and Audit Scotland representatives normally also in attendance. It deals with higher level issues concerning control and governance and supports the National Committee, Country Director and the Agency Chief Executive. It is provided with detailed advice on the work of Internal Audit in particular and control in general.

The ARC advises the National Committee and Accountable Officers on:

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

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

4. Handling Information Risk

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

On 23 November 2007, the Scottish Government announced that it would conduct a co-ordinated review of information security policies and data handling arrangements in Scotland. The review team was to consider:

- the procedures currently in place for the protection of data;
- their consistency with government-wide standards and policies and;
- the arrangements for ensuring that policies and procedures are being fully and correctly implemented.

The team was also asked to identify areas of good practice and to make recommendations for improvement.

The interim report on the review published in April 2008 covered key governance recommendations, and provided an outline of next steps in advance of publication of the final report which is planned to be put to Ministers in May 2008. Phase 1 of the review focused on the current information security policies and data handling arrangements and how these were being implemented across central government, particularly for personal data. Phase 2 sought to identify good practice and make recommendations based on the findings

from Phase 1 and drew on findings across the wider public sector in Scotland, from the other Devolved Administrations and across the UK as a whole. Phases 1 and 2 have demonstrated that data protection is taken seriously by the Scottish Government and its Agencies but that there is room for improvement. Phase 3 of the review will be completed during May 2008, and will report thereafter, setting out detailed plans for the Development and Implementation Programme.

In line with the emerging recommendations, the Forestry Commission has taken the following steps to strengthen its handling of information risk and is developing its own action plan in line with revised guidance produced by the Cabinet Office and the Devolved Administrations.

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

The Forestry Commission Scotland Audit and Risk Committee (ARC) received an update on information risk management at its meeting in March 2008. Information risk will be a standing agenda item for the ARC during 2008-09.

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

5. Review of Effectiveness

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

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

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

6. Significant Internal Control Problems

There were no significant problems to report.

R McIntosh
Non-Statutory Accountable Officer
21 July 2008

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

I have audited the financial statements of the Forestry Commission Scotland for the year ended 31 March 2008 under the Public Finance and Accountability (Scotland) Act 2000. These comprise the Statement of Parliamentary Supply, Operating Cost Statement, Balance Sheet, the Cash Flow Statement and Statement of Recognised Gains and Losses, the Statement of Operating Costs by Departmental Aim and Objectives and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

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

Respective responsibilities of the Forestry Commission Scotland, Accountable Officer and Auditor

The Forestry Commission Scotland and Accountable Officer are responsible for preparing the Annual Report, which includes the Remuneration Report, and the financial statements in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers. The Accountable Officer is also responsible for ensuring the regularity of expenditure and receipts. These responsibilities are set out in the Statement of Forestry Commission Scotland's and Accountable Officer's Responsibilities.

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

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers. I also report to you whether in my opinion, the information which comprises the Management Commentary, Corporate Social Responsibility, Leadership and Governance and Forestry Commission Scotland Finances included in the Annual Report, is consistent with the financial statements. I also report whether in all material respects

- the expenditure and receipts shown in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers, the Budget (Scotland) Act covering the financial year and sections 4 to 7 of the Public Finance and Accountability (Scotland) Act 2000.
- the sums paid out of the Scottish Consolidated Fund for the purpose of meeting the expenditure shown in the financial statements were applied in accordance with section 65 of the Scotland Act 1998.

In addition, I report to you, if in my opinion, the Forestry Commission Scotland has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by relevant authorities regarding remuneration and other transactions is not disclosed.

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

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

Basis of audit opinion

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

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements and the part of the Remuneration Report to be audited are free from material misstatement, whether caused by fraud or error, and that in all material respects the expenditure and receipts shown in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Remuneration Report to be audited.

Opinion

Financial statements

In my opinion:

- the financial statements give a true and fair view, in accordance with Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers, of the state of affairs of the Forestry Commission Scotland as at 31 March 2008 and of the net resource outturn, net cash requirement, net operating cost, recognised gains and losses, cash flows for the year then ended and resources applied to objectives
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers
- information which comprises only the Management Commentary, Corporate Social Responsibility, Leadership and Governance, Forestry Commission Scotland Finances included in the Annual Report is consistent with the financial statements.

Regularity

In my opinion in all material respects:

- the expenditure and receipts shown in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers, the Budget (Scotland) Act covering the financial year and sections 4 to 7 of the Public Finance and Accountability (Scotland) Act 2000; and

- the sums paid out of the Scottish Consolidated Fund for the purposes of meeting the expenditure shown in the financial statements were applied in accordance with section 65 of the Scotland Act 1998.

Signature

Lorna Meahan CA
Assistant Director of Audit
Audit Scotland
Osborne House
1/5 Osborne Terrace
Edinburgh
EH12 5HG

Date 23 July 2008

Operating Cost Statement

For the year ended 31 March 2008

			2007-08 £000	2006-07 £000
	Note	Staff Costs	Other Costs	Income
Administration Costs:				
Staff Costs	3	4,985		4,628
Other Administration costs	4		4,558	3,687
Operating Income	6			(94)
Programme Costs:				
Programme costs	5		87,341	81,891
EU income	6			(4,058)
Other income	6			(2,176)
Totals		<u>4,985</u>	<u>91,899</u>	<u>(6,328)</u>
Net operating Cost	2			<u>90,556</u>
				<u>80,398</u>

All income and expenditure are derived from continuing operations.

Statement of Recognised Gains and Losses

for the year ended 31 March 2008

	Note	2007-08	2006-07
Net gain on revaluation of tangible fixed assets	16	188,561	80,687
Recognised gains and losses for the financial year		<u>188,561</u>	<u>80,687</u>

The notes on pages 40 to 55 form part of these accounts.

Balance Sheet

as at 31 March 2008

	Note	2007-08 £000	2006-07 £000
Fixed assets:			
Tangible assets	8	759,051	570,485
Intangible assets	9	167	188
Debtors falling due after more than one year	11	25	32
Current assets:			
Stocks	10	19	-
Debtors	11	1,898	1,370
Cash at bank and in hand	12	<u>3,402</u>	<u>1,366</u>
		5,319	2,736
Creditors (amounts falling due within one year)	13	(4,599)	(1,829)
Net current assets		<u>720</u>	<u>907</u>
Total assets less current liabilities		<u>759,963</u>	<u>571,612</u>
Creditors (amounts falling due after more than one year)	13	(355)	(332)
Provisions for liabilities and charges	14	(31)	(47)
		<u>759,577</u>	<u>571,233</u>
Taxpayers' equity:			
General fund	15	376,940	377,157
Revaluation reserve	16	382,637	194,076
		<u>759,577</u>	<u>571,233</u>

R McIntosh
Non-Statutory Accountable Officer
21 July 2008

The notes on pages 40 to 55 form part of these accounts.

Cash Flow Statement

for the year ended 31 March 2008

		2007-08 £000	2006-07 £000
	Note		
Net cash outflow from operating activities	17(a)	(72,263)	(66,465)
Capital expenditure and financial investment	17(b)	1,016	(2,602)
Payments of amount due to Scottish Consolidated Fund		(1,366)	(276)
Financing	17(d)	74,649	70,433
Increase/(decrease) in cash in the period	17(e)	<u>2,036</u>	<u>1,090</u>

The notes on pages 40 to 55 form part of these accounts.

Statement of Operating Costs by Departmental Aim and Objectives

for the year ended 31 March 2008

			2007-08 £000 Net			2006-07 £000 Net
Objectives	Gross	Income		Gross	Income	
Improved health and well-being of people and their communities	30,575	(1,961)	28,614	21,891	(2,678)	19,213
Competitive and innovative businesses contributing to the growth of the Scottish economy	32,910	(1,266)	31,644	42,688	(2,981)	39,707
High quality, robust and adaptable environment	33,399	(3,101)	30,298	25,627	(4,149)	21,478
Net operating costs	96,884	(6,328)	90,556	90,206	(9,808)	80,398

See note 18 for explanation of apportionment across objectives.

The notes on pages 40 to 55 form part of these accounts.

Notes to Forestry Commission Scotland resource accounts

1. Statement of accounting policies

These financial statements have been prepared in accordance with the 2007-08 *Government Financial Reporting Manual (FReM)* issued by HM Treasury. The accounting policies contained in the *FReM* follow UK generally accepted accounting practice for companies (UK GAAP) to the extent that it is meaningful and appropriate to the public sector.

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

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

1.1 Accounting convention

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

1.2 Administrative and programme expenditure

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

1.3 Capital charges

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

1.4 Pensions

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

1.5 Contingent liabilities

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

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

1.6 Tangible fixed assets

Legal ownership of all land is vested in Scottish Ministers with legal ownership of the timber, including uncut trees, vested in the Forestry Commissioners. Legal ownership of other tangible fixed assets is vested in the Forestry Commissioners.

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

Forest Estate

A full external professional valuation is undertaken at five yearly intervals. Previously a panel comprising the Forestry Commission Scotland's country land agent and two external valuers undertook this. From 1 April 2008 a firm of external valuers shall undertake the valuation. In accordance with the RICS Appraisal and Valuation Standards (the "Red Book"), the valuation is based on the assets' existing use. This is because the forest estate is regarded as a non-specialised asset that is occupied by its owners for the purposes of their business. The next full valuation shall take place on 1 April 2008. Indices provided by the external firms are used to restate values in the intervening years. Use of the indices shall continue after 1 April 2008.

Non-Forest Land

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

Expenditure on infrastructure

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

Surplus properties

Fixed assets are reviewed regularly to ensure they continue to contribute positively to policy and business objectives. Assets that no longer provide the required level of contribution are considered for disposal by senior management. Decisions to sell such properties take into account a number of factors including the social and environmental effects as well as marketability. Surplus properties are retained in their fixed asset

category and continue to be valued on the appropriate basis as set out in the preceding paragraphs. However, values may be materially affected by development factors such as the award of planning permissions. Where this occurs, assets are revalued to an Open Market Value based on advice provided by the selling agents and taking account of the circumstances of the sales. Revaluation takes place in the quarter following the development event.

Information technology

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

Assets under construction

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

1.7 Depreciation

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

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

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

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

1.8 Intangible assets

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

1.9 Land and Buildings Leased to Customers

Land and buildings leased to external parties is deemed to be sold at a commercial price and taken to the Operating Cost Statement at the inception of the lease. Debtors under finance leases represent the discounted cash value of the outstanding amounts due under the agreements. The discount rates used reflect the appropriate commercial environment. Finance lease interest is recognised over the primary period of the lease so as to produce a constant rate of return on the net cash investments. Assets leased to external parties under operating leases is capitalised under the appropriate accounting policy. Operating lease income is accounted for on a straight line basis with any rental increases recognised during the period to which they relate.

1.10 Operating Income

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

1.11 Leases

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

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

1.12 Grants payable

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

1.13 European Union (EU) funding

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

1.14 Provisions

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

1.15 Value Added Tax (VAT)

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

2. Reconciliation of resources to cash requirement

	Note	Estimate £000	Outturn £000	Net total outturn compared with Estimate: saving/(excess) £000
Total operating resources		92,702	90,556	2,146
Capital:				
• Acquisition of fixed assets	8/9*	6,200	13,482	(7,282)
• Proceeds of fixed asset disposals	17(b)*	(500)	(7,839)	7,339
• Investments				
Total operating and capital resources		98,402	96,199	2,203
Non-operating cost A in A:				
• Proceeds of fixed asset disposals				
Accruals adjustments:				
• Non-cash items	4/5/6	(20,453)	(22,351)	1,898
• Changes in working capital other than cash	17(a)		(194)	194
• Changes in creditors falling due after more than one year	17(b)		(23)	23
• Use of provision	14		18	(18)
Other adjustments:				
• Adjustment of FE net deficit to financing	5	(3,300)	(2,417)	(883)
• Timing between accrual and cash VAT	15		14	(14)
• Non cash inter country transfers	15		1	(1)
Net cash requirement		74,649	71,247	3,402

* Note – capital acquisitions and disposals includes FES which are shown in notes 6 and 16(b) respectively of FES accounts.

Explanation of variances can be found in the financial review on page 20.

3. Staff numbers and related costs

Staff costs comprise:

	2007-08 £000	Permanently employed staff		Others	2006-07 £000
	Total				Total
Wages and salaries	3,927	3,927	-	-	3,636
Social security costs	305	305	-	-	292
Other pension costs	753	753	-	-	700
Inward secondments	-	-	-	-	-
Total net costs	4,985	4,985	-	-	4,628

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme but the Forestry Commission is unable to identify its share of the underlying assets and liabilities. The scheme actuary valued the scheme as at 31 March 2007. You can find details in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice-pensions.gov.uk).

For 2007-08, employers' contributions of £753,000 were payable to the PCSPS (2006-07 £698,000) at one of four rates in the range 17.1% to 25.5% of pensionable pay, based on salary bands (the rates in 2006-07 were between 17.1% and 25.5%). The scheme's Actuary reviews employer contributions every four years following a full scheme valuation. From 2008-09, the salary bands will be revised and the rates will remain the same. The contribution rates are set to meet the cost of the benefits accruing during 2007-08 to be paid when the member retires, and not the benefits paid during this period to existing pensioners.

Employees can opt to open a **partnership** pension account, a stakeholder pension with an employer contribution. Employers' contributions of £nil (2006-07 £2,000) were paid to one or more of a panel of three appointed **stakeholder** pension providers. Employer contributions are age-related and range from 3% to 12.5% of pensionable pay. Employers also match employee contributions up to 3% of pensionable pay. In addition, employer contributions of £nil, 0.8% of pensionable pay, were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees.

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

2 individuals retired early on ill health grounds; the total additional accrued pension liabilities in the year amounted to £60,667.

Average number of persons employed

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

Objective	2007-08 Number			2006-07 Number
	Total	Permanent staff	Others	Total
Improved health and well-being of people and their communities	40	40	-	29
Competitive and innovative businesses contributing to the growth of the Scottish economy	45	45	-	59
High quality, robust and adaptable environment	42	42	-	32
Total	127	127	-	120

4. Other Administration Costs

	<u>2007-08</u> £000	<u>2006-07</u> £000
Shared central services	2,170	2,025
Other administration expenditure	2,183	1,477
<u>Non cash costs</u>		
Cost of capital	48	33
Depreciation	94	83
Notional audit fees – audit work	38	41
Notional audit fees – non-audit work	-	-
Fixed asset write-off	-	25
Provisions provided in year	1	2
Provisions not required written back	-	(15)
Unwinding of discount	1	5
Impairment	23	11
Sub-total	205	185
Non-staff administration costs	4,558	3,687

Administration expenditure includes operating lease rentals on buildings totalling £161,000.

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

- Finance and accounting services
- Information and communications technology

- Human Resources, including forestry training services
- Communications
- Grants and licences
- Operational support services

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

5. Programme costs

	<u>2007-08</u>	<u>2006-07</u>
	£000	£000
Support for forestry and the rural economy, including grants paid to private woodland owners	22,632	21,745
Grants paid to private woodland owners from EU receipts	3,973	7,829
Forestry Development Programmes	6,483	4,443
Other programme costs	173	140
<u>Non cash costs</u>		
Cost of capital	23,241	18,476
Sub total	56,502	52,633
Forest Enterprise Scotland Funding	30,839	29,258
Programme Expenditure	87,341	81,891

Forest Enterprise Scotland Funding

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

Forestry Commission Scotland's programme costs include Forest Enterprise Scotland's deficit of £30,839,000 (2006-07 £29,258,000). After adjusting for capital and non-cash transactions of £4,219,000 (2006-07 £3,074,000), Forest Enterprise received cash funding of £35,058,000 (2006-07 £32,332,000). To reconcile resource outturn to the net cash requirement in the Statement of Parliamentary Supply, the non-cash transactions are adjusted by Forest Enterprise Scotland's net capital expenditure to calculate the adjustment of Forest Enterprise Scotland's deficit to financing of £2,417,000 (2006-07 £2,924,000).

	<u>2007-08</u>	<u>2006-07</u>
	£000	£000
Capital		
Net capital	(6,636)	(5,998)
Accruals adjustments		
Cost of capital	1,713	1,421
Non cash items	2,208	2,888
Changes in working capital, including cash	(2,340)	(1,314)
Donation towards capital expenditure	51	-
Increase/(decrease) in provisions	785	(71)
Total cash adjustments	(4,219)	(3,074)
Adjust supply expenditure for net capital	6,636	5,998
Adjustment of FE deficit to financing (Note 2)	2,417	2,924

6. Income

	2007-08 £000	2006-07 £000
Operating income	94	98
Administrative Income	94	98
Planting grant co-financing from EU	3,973	7,829
EU funding on partnership projects	85	355
Gain on sale of estate land – non-cash	1,095	786
Other Income	1,081	740
Programme income	6,234	9,710
Total	6,328	9,808

7. Analysis of net operating cost by spending body

	Estimate	2007-08 £000 Outturn	2006-07 £000 Outturn
Forestry Commission Scotland	92,702	90,556	2,146
Net Operating Cost	92,702	90,556	2,146

8. Tangible fixed assets

	Forest Estate £000	Land £000	Buildings £000	IT £000	Assets under construction £000	Total £000
Cost or valuation:						
At 1 April 2007	529,081	40,607	-	612	545	570,845
Additions	334	6,171	-	116	26	6,647
Transfers	200	-	356	(3)	(556)	(3)
Disposals	(5,824)	(721)	-	(39)	-	(6,584)
Revaluation	176,704	11,857	-	-	-	188,561
Impairment	-	-	-	(33)	-	(33)
At 31 March 2008	700,495	57,914	356	653	15	759,433
Depreciation:						
At 1 April 2007	-	-	-	360	-	360
Provided during year	-	-	-	73	-	73
Transfers	-	-	-	(2)	-	(2)
Disposals	-	-	-	(39)	-	(39)
Impairment	-	-	-	(10)	-	(10)
At 31 March 2008	-	-	-	382	-	382
Net Book Value at:						
31 March 2008	700,495	57,914	356	271	15	759,051
1 April 2007	529,081	40,607	-	252	545	570,485

The forest estate was revalued at £357,446,000 as at 31 March 2003 by a country valuation panel comprising John Clegg & Co. Chartered Surveyors, Bidwells Chartered Surveyors and professionally qualified land agents employed by the Forestry Commission. The valuation was based on a sample number of properties and the results extrapolated by professionally qualified staff employed by the Forestry Commission. Values are determined using the RICS Existing Use Valuation basis. The next full revaluation is due as at 1 April 2008 with annual updates in the intervening years based on an external professional opinion. For 2007-08, valuations were updated using indexation information provided by John Clegg & Co. Chartered Surveyors and Bidwells Chartered Surveyors.

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

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

As at 31 March 2008 management had taken the decision that 193 properties within the Forest Estate and Other Land were surplus to operational requirements. For marketing and other reasons these properties may not be disposed of immediately. They are included in the financial statements at a net book value of £28,129,474. These values have been determined using an Open Market Valuation basis by internal, professionally qualified staff. Prior to revaluation the net book values were £16,624,039.

Information Technology (IT) was restated to a current value of £271,000 as at 31 March 2008 using an index provided by the Office for National Statistics.

9. Intangible fixed assets

The intangible fixed asset represents the cost of acquiring an annual entitlement to a Single Farm Payment administered by the Scottish Government. The assets were disposed in April 2008 for £366,000.

	2007-08 £000	2006-07 £000
Valuation:		
At 1 April 2007	223	130
Additions	-	93
Disposals	-	-
Revaluation	-	-
At 31 March	223	223
Amortisation:		
At 1 April 2007	35	16
Provided during year	21	19
Disposals	-	-
Revaluation	-	-
At 31 March	56	35
Net book value at 31 March	167	188

10. Stock

	2007-08 £000	2006-07 £000
Stock of publications	19	-
Total	19	-

11. Debtors

11(a) Analysis by type

	2007-08 £000	2006-07 £000
Amounts falling due within one year:		
Trade debtors	672	440
Other debtors	1	2
House purchase loans to employees	6	9
EU funding accrued income	1,140	831
Prepayments and accrued income	79	88
Total	1,898	1,370
	2007-08 £000	2006-07 £000
Amounts falling due after more than one year:		
House purchase loans to employees	25	32
Total	25	32

Forestry Commission Scotland had house purchase loans totalling £31,000 outstanding at 31 March 2008 relating to 4 employees.

11(b) Intra-Government Balances

	Amounts falling due within one year		Amounts falling due after more than one year	
	£000		£000	
	2007-08	2006-07	2007-08	2006-07
Balances with other central government bodies	1,151	854	-	-
Balances with local authorities	-	6	-	-
Balances with NHS Trusts	-	-	-	-
Balances with public corporations and trading funds	-	-	-	-
Intra-government balances	1,151	860	-	-
Balances with bodies external to government	747	510	25	32
Total debtors at 31 March	1,898	1,370	25	32

12. Cash at Bank and in Hand

	2007-08 £000	2006-07 £000
Balance at 1 April	1,366	276
Net change in cash balances	2,036	1,090
Balance at 31 March	3,402	1,366

The following balances at 31 March are held at:

Balance with Office of Paymaster General	3,402	1,366
Cash at commercial banks and cash in hand	-	-
Balance at 31 March	3,402	1,366
Amounts issued from the Scottish Government for supply but not spent at year end	3,402	1,366

13. Creditors

13(a) Analysis by type

	2007-08 £000	2006-07 £000
Amounts falling due within one year		
Trade creditors	939	305
Other creditors	1	53
Accruals and deferred income	219	67
Current part of finance leases	38	38
Amounts issued from the Scottish consolidated fund (supply) but not spent at 31 March	3,402	1,366
Total	4,599	1,829
	2007-08 £000	2006-07 £000
Amounts falling due after more one year		
Finance leases	355	332
Total	355	332

13(b) Intra-Government Balances

	Amounts falling due within one year		Amounts falling due after more than one year	
	£000	£000	£000	£000
	2007-08	2006-07	2007-08	2006-07
Balances with other central government bodies	3,402	1,371	-	-
Balances with local authorities	170	9	-	-
Balances with NHS Trusts	-	-	-	-
Balances with public corporations and trading funds	-	-	-	-
Intra-government balances	3,572	1,380	-	-
Balances with bodies external to government	1,027	449	355	332
Total creditors at 31 March	4,599	1,829	355	332

14. Provisions for liabilities and charges

	Early departure cost £000
Balance at 1 April 2007	47
Provided in the year	1
Provisions not required written back	-
Utilised in the year	(18)
Unwinding of discount	1
Balance at 31 March 2008	31

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

15. General Fund

	2007-08 £000	2006-07 £000
Balance at 1 April	377,157	373,009
Net operating cost for the year	(90,556)	(80,398)
Net Parliamentary funding	74,649	70,433
Forest Enterprise Scotland capital and non-cash adjustments (note 5)	(4,219)	(3,074)
Notional cost of capital	23,289	18,509
Transfer of fixed assets from/to other forestry bodies	(1)	(1)
Timing between accrual and cash VAT	(14)	14
Non-cash inter-country transfers	(1)	(10)
Notional audit fees	38	41
Amounts issued from the Scottish Consolidated Fund for supply but not spent at year end	(3,402)	(1,366)
Balance at 31 March	<u>376,940</u>	<u>377,157</u>

16. Revaluation Reserve

	2007-08 £000	2006-07 £000
Balance at 1 April	194,076	113,389
Arising on revaluation during the year:		
Forest estate	176,704	73,463
Land	<u>11,857</u>	<u>7,224</u>
	188,561	80,687
Balance at 31 March	<u>382,637</u>	<u>194,076</u>

17. Notes to the Cash Flow Statement

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

		2007-08 £000	2006-07 £000
Net operating cost	Note	(90,556)	(80,398)
Adjustments for non-cash transactions	4/5/6	22,351	17,875
Forest Enterprise Scotland capital and non-cash adjustments	5	(4,219)	(3,074)
Timing between accrual and cash VAT		(14)	14
Non-cash inter-country transfers		(1)	(10)
(Increase)/decrease in stocks		(19)	-
(Increase)/decrease in debtors		(521)	(537)
Increase/(decrease) in creditors		2,770	793
less movements in creditors relating to items not passing through OCS		(2,036)	(1,090)
Use of provisions	14	(18)	(38)
Net cash outflow from operating activities		<u>(72,263)</u>	<u>(66,465)</u>

17(b) Analysis of capital expenditure and financial investment

		2007-08 £000	2006-07 £000
	Note		
Tangible fixed asset additions	8	(6,647)	(4,148)
Intangible fixed asset additions	9	-	(93)
Proceeds of disposal of fixed assets		7,640	1,677
Creditors falling due after more than one year	13	23	(38)
Loans to other bodies		-	-
Repayment of loans to other bodies		-	-
Net cash inflow/(outflow) from investing activities		<u>1,016</u>	<u>(2,602)</u>

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

	Capital expenditure £000
Request for resources	(6,647)
Net movement in debtors/creditors	-
Total 2007-08	<u>(6,647)</u>
Total 2006-07	<u>(4,241)</u>

17(d) Analysis of financing

		2007-08 £000	2006-07 £000
	Note		
From the Scottish Consolidated Fund	15	74,649	70,433
Net financing		<u>74,649</u>	<u>70,433</u>

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

		2007-08 £000	2006-07 £000
	Note		
Net cash requirement		(71,247)	(69,067)
Payment of amount due to Scottish Consolidated Fund		(1,366)	(276)
Net financing from the Scottish Consolidated Fund	17(d)	74,649	70,433
Increase/(decrease) in cash		<u>2,036</u>	<u>1,090</u>

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

Expenditure in the schedule comprises the direct costs incurred by Forestry Commission Scotland's national office and indirect costs which have been allocated by individual cost centres or apportioned pro rata to the directly attributable costs. An analysis was undertaken to determine the costs attributable to each of the objectives for the core department. In a multi-benefit forestry strategy where many activities will contribute to more than one objective, the allocation of costs has been undertaken by senior staff in each area based on an informed judgement of each activity.

Capital employed by Departmental Aim and Objectives at 31 March 2008

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

	2007-08 £000	2006-07 £000
Improved health and well-being of people and their communities	240,009	138,625
Competitive and innovative businesses contributing to the growth of the Scottish economy	265,434	270,324
High quality, robust and adaptable environment	254,134	162,284
Total	<u>759,577</u>	<u>571,233</u>

19. Capital commitments

There were no contracted capital commitments at 31 March 2008 (£Nil at 31 March 2007).

20. Commitments under leases

20(a) Operating Leases

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

	2007-08 £000	2006-07 £000
Obligations under operating leases comprise:		
Buildings:		
Expiry within 1 year	-	14
Expiry after 1 year but not more than 5 years	70	50
Expiry thereafter	91	91
Total	<u>161</u>	<u>155</u>

20(b) Finance Leases

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

	2007-08 £000	2006-07 £000
Rentals due in one year or less	38	38
Rentals due in more than one year but not more than two years	36	38
Rentals due in more than two years but not more than five years	100	114
Rentals due in more than five years	214	180
Total	<u>388</u>	<u>370</u>

21. Other financial commitments

Following approval of a management plan for planting proposals, the Forestry Commission undertakes to pay planting grants in three instalments. At 31 March 2008, the Forestry Commission was committed under signed plans to the payment of future instalments of planting and replanting grants amounting to £32.8 million (£59.0 million in 2006-07). Grants for the management of existing woodlands are payable annually in arrears during the five-year currency of an approved plan, so long as specific objectives and age criteria are met. Commitments to future payments in respect of approved plans amounted to £10.4 million at 31 March 2008 (£9.1 million in 2006-07).

22. Contingent Liabilities disclosed under FRS 12

There were no contingent liabilities at 31 March 2008 for damages caused to other persons' property or for compensation for personal injury to employees (£Nil as at 31 March 2007).

There were no other contingent liabilities.

23. Post balance sheet events

These financial statements were authorised for issue on 23 July 2008 by the Accountable Officer.

24. Related party transactions

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

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

During the year, Forest Enterprise Scotland entered into material transactions involving Martin Gale, a non-executive Forestry Commissioner and a member of the National Committee for Scotland, which are disclosed in their Annual Report and Accounts for 2007-08.

Simon Pepper, a non-executive member of the National Committee for Scotland, entered into a Scottish Forestry Grant Scheme contract. Payments of £2,525 were made to him during the year. There were no further payments due at 31 March 2008.

Simon Rennie, a non-executive member of the National Committee for Scotland, is a Director of the Central Scotland Forest Trust which received funding and forestry grant payments totalling £1,215,820. Amounts owing to the Central Scotland Forest Trust at 31 March 2008 was £nil.

25. Losses statement

Losses totalled £44,680 from 9 cases (£74,000 in 2006-07).
Special payments totalled £2000 from 1 case (£nil in 2006-07).

26. Financial Instruments

FRS 13, *Derivatives and Other Financial Instruments*, requires disclosure of the role which financial instruments have had during the period in creating or changing the risks an entity faces in undertaking its activities. Because of the largely non-trading nature of its activities and the way in which government departments are financed, Forestry Commission Scotland is not exposed to the degree of financial risk

faced by business entities. Moreover, financial instruments play a much more limited role in creating or changing risk than would be typical of the listed companies to which FRS 13 mainly applies. The department has no powers to borrow or invest surplus funds and financial assets and liabilities are generated by day-to-day operational activities and are held not to change the risks facing the department in undertaking its activities.

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

Liquidity risk

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

Interest-rate risk

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

Foreign currency risk

Forestry Commission Scotland is not exposed to foreign currency risk.

Fair Values

There is no difference between book value and fair value for the cash at bank shown in Note 12.

26. Entities within the departmental boundary

The entities within the boundary during 2007-08 were as follows:

- a. Supply-financed agencies**
None.
- b. Non-executive NDPBs:**
None.
- c. Other entities:**
None.



FORESTRY COMMISSION SCOTLAND

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

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

Signed by the authority of the Scottish Ministers

Dated 17 January 2006



Forest Enterprise Scotland

Annual Accounts 2007-08

FINANCES

Basis of accounts

The Forest Enterprise Scotland accounts have been prepared under a direction given by the Scottish Ministers in pursuance of Section 45(1) of the Forestry Act 1967. The direction is produced as an appendix to the accounts.

Departmental accounting boundary

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

Financial review

Forest Enterprise Scotland incurred a deficit on its Income and Expenditure Account, before cost of capital, of £29.1 million (2006-07 £27.8 million).

The operating deficit fell by £2.0 million as described below:

- The income from sales of timber was £42.1 million which was an increase of £5.4 million on 2006-07. This reflected a significant improvement in prices.
- Deer management and other forest maintenance income of £0.9 million was £0.1 million higher than 2006-07 mainly due to an increase in the number of shooting leases.
- The income from the management of the estate of £6.2 million showed a reduction of £0.1 million over 2006-07. There were increases in coal and mineral royalties and income from other development opportunities. However, there was a significant reduction in windfarm development income. The previous accounts for 2006-07 included income from the windfarm development at Whitelee south of Glasgow.
- The overall cost of harvesting and marketing at £21.2 million was £0.6 million less than in 2006-07 on a similar programme. Despite the significant increase in fuel costs during the year, this was more than offset by reductions in the amount of haulage and cost savings on operations.
- Expenditure on forest roads at £11.5 million was £2.8 million over 2006-07. This reflected a significant increase in the amount of new road construction and upgrading of roads which will allow access to areas for timber felling.
- The deer management and other forest protection and maintenance costs were £18.9 million which was at a similar level to 2006-07.
- Expenditure on management and development of the estate was £4.2 million which was an increase of £0.8 million on 2006-07. A significant element of this was incurred on external work. Additional costs on Estates were also incurred.

The net cost of recreation, conservation and heritage was £16.7 million which was an increase of £3.3 million on 2006-07. A significant element of this related to funds being allocated for additional work on Biodiversity and Heritage projects.

Additions to dwellings and other buildings amounted to £2.3 million. Building assets were revalued upwards by £2.8 million using information provided by the District Valuer. Buildings under construction at the year end amounted to £0.9 million. The main projects were the building of an extension to the Aberdeenshire forest district office at Huntly and purchase of buildings associated with the purchase of land for Forestry

Commission Scotland. The land will be used for carbon sequestration and the WIAT initiative. Some of the buildings will be developed for the WIAT initiative and surplus ones will be sold.

Purchases of forestry vehicles, machinery and equipment (VME) amounted to £3 million compared with net disposals of £1.4 million.

After adjusting the total deficit for items not involving the movement in cash and for capital expenditure and receipts, the net cash funding received from Forestry Commission Scotland was £35 million (2006-07 £32 million).

Forest Holidays

In May 2006, the Forestry Commission entered into a partnership with the Camping and Caravanning Club to take over management of its Forest Holidays' business. As the investment in the partnership is outside the departmental boundary and Forest Enterprise Scotland does not exercise in-year budgetary control over the partnership, then, in accordance with FReM 2.4, the investment is treated as a fixed asset investment. In accordance with the initial business plan, no income has been received from the investment in the partnership. The Forest Holidays business is developing well with investment and turnover slightly ahead of original expectations.

There are no Post-Balance Sheet Events at 31 March 2008.

Future Work

The top priority recreation project is to construct the new Glentress Peel visitor infrastructure in the Tweed Valley Forest Park near Peebles. The project has received planning approval and it is planned to move forward with tendering the two main civil engineering and building contracts in early 2008-09. If all stays on schedule, the new development is due to be completed in late 2008 or early 2009. Plans are also being developed to improve facilities at other sites across Scotland.

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

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

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

Other Disclosures

Research and Development

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

Pensions

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

Supplier Payment Policy

Forest Enterprise Scotland complies with the Government's Better Payment Practice Code. Unless otherwise stated in the contract, we aim to pay within 30 days from the receipt of goods and services or the presentation of a valid invoice, whichever is the later. A sample analysis for 2007-08 indicates that 98.3% (98.7% for 2006-07) of invoices were paid within the due date. Arrangements for handling complaints on payment performance are notified to suppliers on contracts.

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

Auditors

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

Disclosure of audit information to the auditors

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

Hugh Insley
Chief Executive and Agency Accountable Officer
21 July 2008

REMUNERATION REPORT

Remuneration policy

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

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

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

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

Employment contracts

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

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

Audited element of remuneration report

Salary and pension entitlements

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

	2007-08		2006-07	
	Salary	Benefits in kind	Salary	Benefits in kind
	£000	to nearest £100	£000	to nearest £100
Hugh Insley	90-95	-	85-90	-
Les Bryson	65-70	1,000	60-65	1,000
Alan Stevenson	55-60	-	55-60	-
Laurie Tyson	55-60	-	55-60	-
Moira Baptie	45-50	1,100	45-50	1,100
Alan Duncan	45-50	-	40-45	-
Stephanie Atwell	25-30	-	25-30	-
Nicol Sinclair	40-45	-	35-40	-
Michael Ansell	65-70	-	20-25 ¹	-

The salary and pension costs for members of the National Committee for Scotland are disclosed in the Forestry Commission Scotland Annual Report and Accounts 2007-08.

Salary

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

Benefits in kind

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

¹ Figure quoted is for period 4 December 2006 to 31 March 2007. Full year equivalent is 60-65.

Pension benefits

	Accrued pension at age 60 at 31 March 2008 and related lump sum £000	Real increase in pension and related lump sum at age 60 £000	CETV at 31 March 2008 £000	CETV at 31 March 2007 £000	Real increase in CETV £000	Employer contribution to partnership pension account Nearest £100
Hugh Insley	35-40 plus LS of 115-120	0-2.5 plus LS of 2.5-5.0	964	834	23	-
Les Bryson	20-25 plus LS of 65-70	0-2.5 plus LS of 0-2.5	453	385	10	-
Laurie Tyson	15-20 plus LS of 45-50	0-2.5 plus LS of 0-2.5	312	261	9	-
Alan Stevenson	20-25 plus LS of 60-65	0-2.5 plus LS of 2.5-5.0	400	332	16	-
Moiria Baptie	10-15 plus LS of 35-40	0-2.5 plus LS of 2.5-5.0	189	151	10	-
Alan Duncan	20-25 plus LS of 60-65	0-2.5 plus LS of 0-2.5	429	363	13	-
Stephanie Atwell	5-10 plus LS of 15-20	0-2.5 plus LS of 0-2.5	87	70	4	-
Nicol Sinclair	5-10 plus LS of 25-30	0-2.5 plus LS of 2.5-5.0	127	95	14	-
Michael Ansell	0-5 plus LS of 0-5	0-2.5 plus LS of 0-2.5	22	5	14	-

Civil Service Pensions

Pension benefits are provided through the Civil Service pension arrangements. From 30 July 2007, civil servants may be in one of four defined benefit schemes: either a 'final salary' scheme (classic, premium or classic plus), or a 'whole career' scheme (nuvos). These statutory arrangements are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under classic, premium, classic plus and nuvos are increased annually in line with changes in the Retail Prices Index (RPI). Members joining from October 2002 may opt for the appropriate defined benefit arrangement or a good quality 'money purchase' stakeholder arrangement with a significant employer contribution (partnership pension account).

Employee contributions are set at the rate of 1.5% of pensionable earnings for classic and 3.5% for premium, classic plus and nuvos. Benefits in classic accrue at the rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years' pension is payable on retirement. For premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum (but members may give up (commute) some of their pension to provide a lump sum). Classic plus is essentially a hybrid with benefits in respect of service before 1 October 2002 calculated broadly as for classic and benefits for service from October 2002 calculated as in premium. In nuvos a member builds up a pension based on his pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.30% of their pensionable earnings in that scheme year and the accrued pension is uprated in line with RPI. In all cases members may opt to give up (commute) pension for lump sum up to the limits set by the Finance Act 2004.

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

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

Further details about the Principal Civil Service Pension Scheme can be found at the website www.civilservice-pensions.gov.uk

Cash Equivalent Transfer Values

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

Real increase in CETV

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

Hugh Insley
Chief Executive and Agency Accountable Officer
21 July 2008

STATEMENT OF ACCOUNTABLE OFFICER'S RESPONSIBILITIES

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

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

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

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

STATEMENT ON INTERNAL CONTROL

1. Scope of responsibility

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

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

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

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

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

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

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

2. Purpose of the System of Internal Control

The system of internal control is designed to manage risk rather than eliminate the risk of failure to achieve Forest Enterprise Scotland policies, aims and objectives. It can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify the principal risks to the achievement of Forest Enterprise Scotland policies, aims and objectives; to evaluate the nature and extent of those risks and to manage them efficiently, effectively and economically. The process within Forest Enterprise Scotland accords with the SPFM and has been in place for the year ended 31 March 2008 and up to the date of approval of the annual report and accounts, and accords with guidance from the Scottish Ministers.

3. Risk and Control Framework

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

Risk management is the responsibility of every member of staff in Forest Enterprise Scotland. Everyone has a role to play in managing the risks within their own area of authority. Risk awareness and responsibility lies in parallel with the structure of Forest Enterprise Scotland's objectives. At every level of objective there is equivalent delegation of responsibility of associated risk.

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

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

More generally, Forest Enterprise Scotland is committed to a process of continuous development and improvement: developing systems in response to any relevant reviews and developments in best practice in this area. In particular, in the period covering the year to 31 March 2008 and up to the signing of the accounts Forest Enterprise Scotland has:

- updated the existing Forest Enterprise Scotland risk register which was considered and approved by the Agency Management Board on 12 March 2008. Further embedded the Risk Management process by holding a meeting of representative senior and line managers from Forestry Commission and Forest Enterprise Scotland during December 2007 to review the risk register. This meeting was facilitated by our private sector risk management consultant and considered current content, scoring, adequacy of controls and identified omissions.
- participated in the Commission wide, Risk Management Group (RMG), which met on 2 August 2007, 8 November 2007 and 26 March 2008 to consider and ensure continued development of risk management and business continuity planning and the sharing of best practice across the FC.
- as an important stage in the development of Business Continuity Plans (BCPs) contributed to the process of external consultancy developing Business Continuity Plan (BCP) templates for the Forestry Commission during 2007-08 to enable a series of BCPs specifically matched to FE Scotland's needs to be produced and in place during 2008-09. A BCP template for cost centres has been produced and detailed plans relating specifically to FE Scotland's needs will be produced by cost centre managers by September 2008. The purpose of these plans is to ensure that there are procedures in place to facilitate the recovery of FES's critical business activities or key enabling capabilities should a break in continuity occur. This process is also part of the embedding of risk and its management at the cost centre management level ensuring common standards across our organisation in Scotland.

The Audit and Risk Committee (ARC) in its current form which was set up and approved by the FC Scotland National Committee in October 2006, met in July 2007, October 2007, March 2008 and June 2008. At each meeting they considered a range of reports from management, and from internal and external audit.

The ARC membership consists of 4 Non-Executives, with Forestry Commission Scotland's Director, Agency Chief Executive and Director Corporate Services, the Head of Internal Audit and Audit Scotland representatives normally also in attendance. It deals with higher level issues concerning control and governance and supports the National Committee, Country Director and the Agency Chief Executive. It is provided with detailed advice on the work of Internal Audit in particular and control in general.

The ARC advises the National Committee and Accountable Officers on:

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

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

4. Handling Information Risk

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

On 23 November 2007, the Scottish Government announced that it would conduct a co-ordinated review of information security policies and data handling arrangements in Scotland. The review team were to consider:

- the procedures currently in place for the protection of data;
- their consistency with government-wide standards and policies;
- the arrangements for ensuring that policies and procedures are being fully and correctly implemented.

The team was also asked to identify areas of good practice and to make recommendations for improvement.

The interim report on the review published in April 2008 covered key governance recommendations, and provided an outline of next steps in advance of publication of the final report which is planned to be put to Ministers in May 2008. Phase 1 of the review focused on the current information security policies and data handling arrangements and how these were being implemented across central government, particularly for personal data. Phase 2 sought to identify good practice and make recommendations based on the findings from Phase 1 and drawing on the merging findings across the wider public sector in Scotland, from the other

Devolved Administrations and across the UK as a whole. Phases 1 and 2 have demonstrated that data protection is taken seriously by the Scottish Government and its Agencies but that there is room for improvement. Phase 3 of the review will be completed during May 2008, and will report thereafter, setting out detailed plans for the Development and Implementation Programme.

In line with the emerging recommendations, the Forestry Commission has taken the following steps to strengthen its handling of information risk and is developing its own action plan in line with revised guidance produced by the Cabinet Office and the Devolved Administrations.

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

The Forestry Commission Scotland Audit and Risk Committee (ARC) received an update on information risk management at its meeting in March 2008. Information risk will be a standing agenda item for the ARC during 2008-09.

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

5. Review of Effectiveness

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

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

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

6. Significant Internal Control Problems

There were no significant problems to report.

Hugh Insley
Chief Executive and Agency Accountable Officer
21 July 2008

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

I have audited the financial statements of Forest Enterprise Scotland for the year ended 31 March 2008 under the Forestry Act 1967. These comprise the Income and Expenditure Account, Balance Sheet, the Cash Flow Statement and Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

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

Respective responsibilities of Forest Enterprise Scotland, Accountable Officer and Auditor

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

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

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Forestry Act 1967 and directions made thereunder by the Scottish Ministers. I report to you whether, in my opinion, the information which comprises the Management Commentary, Corporate Social Responsibility, Leadership and Governance and Forest Enterprise Scotland Finances included in the Annual Report, is consistent with the financial statements. I also report whether in all material respects the expenditure and receipts shown in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers.

In addition, I report to you if, in my opinion, Forest Enterprise Scotland has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by relevant authorities regarding remuneration and other transactions is not disclosed.

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

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

Basis of audit opinion

I conducted my audit in accordance with the Public Finance and Accountability (Scotland) Act 2000 and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board as required by

the Code of Audit Practice approved by the Auditor General for Scotland. An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of expenditure and receipts included in the financial statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements made by Forest Enterprise Scotland and the Accountable Officer in the preparation of the financial statements, and of whether the accounting policies are appropriate to Forest Enterprise Scotland's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements and the part of the Remuneration Report to be audited are free from material misstatement, whether caused by fraud or error, and that in all material respects the expenditure and receipts shown in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Remuneration Report to be audited.

Opinion

Financial statements

In my opinion:

- the financial statements give a true and fair view, in accordance with Forestry Act 1967 and directions made thereunder by the Scottish Ministers, of the state of affairs of Forest Enterprise Scotland as at 31 March 2008 and of the operating deficit, total recognised gains and losses and cash flows for the year then ended
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with Forestry Act 1967 and directions made thereunder by the Scottish Ministers
- information which comprises only Management Commentary, Corporate Social Responsibility, Leadership and Governance and Forest Enterprise Scotland Finances included in the Annual Report is consistent with the financial statements.

Regularity

In my opinion in all material respects the expenditure and receipts shown in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers.

Signature

Lorna Meahan CA
Assistant Director of Audit
Audit Scotland
Osborne House
1/5 Osborne Terrace
Edinburgh
EH12 5HG

Date 23 July 2008

**Forest Enterprise Scotland
Income and Expenditure Account
for the Year Ended 31 March 2008**

	2007-08 £000	2006-07 £000
Operating Income		
Sales of Timber	42,074	36,710
Forest Protection and Maintenance	863	772
Management and Development of Estate	2	
Continuing operations	6,173	6,310
Discontinued operations	4	99
	<u>49,114</u>	<u>43,891</u>
Operating Expenditure		
Forest Planning	4,361	4,126
Harvesting and Haulage of Timber	21,236	21,840
Forest Roads	11,505	8,667
Forest Protection and Maintenance	18,918	18,817
Management and Development of Estate	2	
Continuing operations	4,202	3,393
Discontinued operations	-	172
	<u>60,222</u>	<u>57,015</u>
Operating Deficit	(11,108)	(13,124)
Recreation, Conservation & Heritage		
Income	4,526	3,618
Expenditure	21,243	17,045
	<u>(16,717)</u>	<u>(13,427)</u>
Operating Deficit Net of R,C & H	(27,825)	(26,551)
Deficit on sale of properties	4 (1,301)	(1,286)
Deficit	<u>(29,126)</u>	<u>(27,837)</u>
Notional cost of capital	5 (1,713)	(1,421)
Net Deficit for the Year	<u>(30,839)</u>	<u>(29,258)</u>
Transferred to General Fund	<u>(30,839)</u>	<u>(29,258)</u>

There have been no acquisitions during the year.

The notes on pages 77 to 89 form part of these accounts.

**Forest Enterprise Scotland
Statement of Total Recognised Gains and Losses
for the Year Ended 31 March 2008**

	Note	2007-08 £000	2006-07 £000
Net deficit for the year		(30,839)	(29,258)
Revaluation surplus for the year	14	2,999	2,630
Realised revaluation surplus	14	383	800
Total recognised gains and losses for the year		<u>(27,457)</u>	<u>(25,828)</u>

The notes on pages 77 to 89 form part of these accounts.

**Forest Enterprise Scotland
Balance Sheet
as at 31 March 2008**

		2007-08	2006-07
	Note	£000	£000
Fixed assets			
Tangible assets	6	38,413	31,320
Investment	7	1,833	-
Debtors falling due after more than one year	9	2,751	3,895
Current assets			
Stocks	8	3,334	3,376
Debtors	9	13,867	11,372
Cash at banks and in hand	10	7	3
		17,208	14,751
Creditors (amounts falling due within one year)	11	(4,996)	(4,669)
Net current assets		12,212	10,082
Total assets less current liabilities		55,209	45,297
Provisions for liabilities and charges	12	(1,722)	(937)
		53,487	44,360
Capital and reserves			
General fund	13	40,411	33,951
Revaluation reserve	14	13,025	10,409
Donated Asset Reserve	15	51	-
		53,487	44,360

Hugh Insley
Chief Executive and Accountable Officer
21 July 2008

The notes on pages 77 to 89 form part of these accounts.

**Forest Enterprise Scotland
Cash Flow Statement
for the Year Ended 31 March 2008**

	2007-08	2006-07
Note	£000	£000
Net cash outflow from operating activities	16a (28,469)	(26,333)
Capital expenditure	16b (6,636)	(5,998)
Financing	16c 35,109	32,332
Increase/(decrease) in cash	10 <u>4</u>	<u>1</u>

The notes on pages 77 to 89 form part of these accounts.

Notes to the accounts

1 Accounting policies

In pursuance of Section 45(1) of The Forestry Act 1967, and as approved by the Scottish Ministers, these financial statements have been prepared in accordance with the 2007-08 *Government Financial Reporting Manual (FReM)* issued by HM Treasury. The accounting policies contained in the *FReM* follow UK generally accepted accounting practice for companies (UK GAAP) to the extent that it is meaningful and appropriate to the public sector.

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

1.1 Accounting convention

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

1.2 Capital charge

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

1.3 Pensions

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

1.4 Contingent liabilities

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

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

1.5 Tangible fixed assets

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

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

Dwellings and other buildings

Professionally qualified staff employed by the Forestry Commission undertake a full revaluation of dwellings and other buildings at five yearly intervals coinciding with that for the forest estate and non-forest land. They follow the principles set out in the RICS Red Book and value on the basis of Open Market Value, Existing Use Value, Depreciated Replacement Cost or Discounted Cash Flow as appropriate under the RICS guidance. Indices provided by the District Valuer are used to restate values between full valuations. The next full valuation shall take place on 1 April 2008. The normal threshold for capitalisation of buildings is £2,000.

Surplus properties

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

Plant and machinery

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

Office machinery and equipment

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

Assets under construction

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

1.5 Depreciation of tangible fixed assets

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

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

1.7 Subsidiaries, associates and joint ventures

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

1.8 Stocks and work in progress

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

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

Cost of production and collection comprises labour and attributable administrative expenses based on the normal level of activity. Net realisable value is based on estimated selling prices, less further costs expected to be incurred to completion and disposal.

1.9 Income

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

1.10 Leases

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

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

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

1.11 Provisions

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

1.12 Value added tax

The Forestry Commission is registered for value added tax (VAT) and accounts for it on a Great Britain basis, which includes any VAT transactions for Forest Enterprise Scotland. Any VAT due to or from HM Revenue and Customs at the year-end is included in Forestry Commission Great Britain/England accounts as a debtor or creditor in the balance sheet. Irrecoverable VAT is charged to the income and expenditure account in the year in which it is incurred.

Note 2 Operating Deficit

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

	2007-08 £000	2006-07 £000
Depreciation of fixed assets	1,849	1,908
Hire of plant and equipment	3,100	2,370
Operating lease rentals:		
Land and buildings	111	105
Other	1,433	2,272
Auditors' remuneration – audit work	60	60
Auditors' remuneration – non-audit work	-	-
Shared central services	4,607	4,402

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

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

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

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

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

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

	Income £000	Expenditure £000	2007-08 Net £000	2006-07 Net £000
Continuing operations				
Estate Management	4,505	2,464	2,041	3,032
Other	1,668	1,727	(59)	(107)
Impairment on OME	-	11	(11)	(8)
	<u>6,173</u>	<u>4,202</u>	<u>1,971</u>	<u>2,917</u>
Discontinued operations				
Forest Holidays	4	-	4	(73)
Impairment on Forest Holidays cabins	-	-	-	-
	<u>4</u>	<u>-</u>	<u>4</u>	<u>(73)</u>
Total	<u>6,177</u>	<u>4,202</u>	<u>1,975</u>	<u>2,844</u>

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

to the way in which the Forestry Commission will account for its interest in Forest Holidays. As Forest Enterprise Scotland does not exercise in-year budgetary control over the partnership, then, in accordance with FReM 2.4, the investment will be treated as a fixed asset investment. Since inception in 2006-07, no income was received from the investment in the partnership. In 2006-07 a loss on disposal of £588,000 was recognised in sale of properties. More details on the financial implications of the transfer of the Forest Holidays is disclosed in note 7.

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

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

Note 3 Staff numbers and costs

3.1 Employees and costs

The average number of whole time equivalent persons employed in Forest Enterprise Scotland during the year was 923 (931 in 2006-07). In addition, the number of whole time equivalents employed as temporary / agency staff was 3 (3 in 2006-07).

The aggregate payroll costs were as follows:

	2007-08 £000	2006-07 £000
Salaries	22,318	21,822
Social Security Costs	1,595	1,591
Other pension costs	3,881	3,783
Temporary/Agency	63	65
	<u>27,857</u>	<u>27,261</u>
Less recoveries in respect of outward secondments	(17)	(37)
	<u>27,840</u>	<u>27,224</u>

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme but the Forestry Commission is unable to identify its share of the underlying assets and liabilities. The scheme actuary valued the scheme as at 31 March 2007. You can find details in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice-pensions.gov.uk).

For 2007-08, employers' contributions of £3,881,000 were payable to the PCSPS (2006-07 £3,775,000) at one of four rates in the range 17.1% to 25.5% of pensionable pay, based on salary bands (the rates in 2006-07 were between 17.1% and 25.5%). The scheme's Actuary reviews employer contributions every four years following a full scheme valuation. From 2007-08, the salary bands will be revised and the rates will remain the same. The contribution rates are set to meet the cost of the benefits accruing during 2007-08 to be paid when the member retires, and not the benefits paid during this period to existing pensioners.

Employees can opt to open a **partnership** pension account, a stakeholder pension with an employer contribution. Employers' contributions of £11,000 were paid to one or more of a panel of three appointed **stakeholder** pension providers. Employer contributions are age-related and range from 3% to 12.5% of pensionable pay. Employers also match employee contributions up to 3% of pensionable pay. In addition, employer contributions of £600, 0.8% of pensionable pay, were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees.

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

4 individuals retired early on ill health grounds; the total additional accrued pension liabilities in the year amounted to £3,191.

Note 4 Sale of properties

	2007-08 £000	2006-07 £000
Income	199	4,235
Book value	449	4,775
	<u>(250)</u>	<u>(540)</u>
Disposal costs		
External costs	(508)	(350)
Administration expenses	(543)	(396)
	<u>(1,051)</u>	<u>(746)</u>
Surplus/(deficit) on sale of properties	<u>(1,301)</u>	<u>(1,286)</u>

Note 5 Notional cost of capital

Notional cost of capital based on 3.5% of average total assets less liabilities employed in 2007-08 amounted to £1,713,000 (£1,421,000 in 2006-07).

Note 6 Tangible fixed assets

	Dwellings and Other Buildings £000	VME £000	OME £000	Assets Under Construction £000	Total £000
Valuation:					
At 1 April 2007	30,689	10,835	337	642	42,503
Additions	2,312	3,032	37	1,454	6,835
Transfers	1,385	10	3	(1,190)	208
Disposals	(559)	(1,350)	(81)	-	(1,990)
Write-off	(4)	-	-	(18)	(22)
Revaluation	2,756	86	-	-	2,842
Impairment	-	-	(19)	-	(19)
At 31 March 2008	36,579	12,613	277	888	50,357
Depreciation:					
At 1 April 2007	3,583	7,403	197	-	11,183
Provided during year	891	910	48	-	1,849
Transfers	29	-	2	-	31
Disposals	(111)	(1,241)	(81)	-	(1,433)
Revaluation	283	39	-	-	322
Impairment	-	-	(8)	-	(8)
At 31 March 2008	4,675	7,111	158	-	11,944
At 31 March 2008	31,904	5,502	119	888	38,413
At 1 April 2007	27,106	3,432	140	642	31,320
Asset financing:					
Owned	31,904	5,502	119	888	38,413
Net book value at 31 March 2008	31,904	5,502	119	888	38,413

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

Buildings assets comprise both freehold and leasehold assets.

Forestry vehicles, machinery and equipment (VME) was valued at £4,056,000 as at 31 March 2005 by professionally qualified staff employed by the Forestry Commission based on valuations provided by internal professionally qualified staff for specialist forestry machinery and indices provided by the Office for National Statistics for all other assets. The next full revaluation is due as at 1 April 2010 with annual updates in the intervening years based on indices provided by the Office for National Statistics. For 2007-08, the movement in the index was immaterial and no revaluation was undertaken.

Office machinery and equipment (OME) was restated to a current value of £119,000 as at 31 March 2008 using an index provided by the Office for National Statistics.

Note 7 Fixed asset investments

In May 2006, the Forestry Commission entered into a partnership with the Camping and Caravanning Club to take over management of its Forest Holidays business. The net book value of Forest Enterprise Scotland's cabin and campsite land and buildings transferred to the partnership was £4,468,000. The 2006-07 accounts of Forest Enterprise Scotland showed that in return, it received £3,880,000 comprising:

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

The fixed asset investment was valued at nil because the Forestry Commission considered that the book value of the long term lease debtor together with the loan amount represented substantially all of the Forestry Commission's share of the partnership's value. To test this view, Barrs & Co., specialist leisure consultants and valuers, carried out an external professional valuation of the Forest Holidays arrangements as at 31 March 2008. This work showed that the following adjustments were required to the 2007-08 accounts as the overall impact of the changes is below the threshold for making prior year adjustments:

- the valuers concluded that the Forestry Commission's partnership share of the LLP was marketable and appropriate evidence existed to value this. A fixed asset investment of £1,354,000 was accounted for as an addition to assets in 2007-08. This reflects the value of Forest Enterprise Scotland's share of the LLP as at 8 May 2006. The investment was revalued to £1,833,000 as at 31 March 2008.
- The finance lease debtor as at 31 March 2007 was calculated using HM Treasury's standard rate of 3.5% per annum rather than an appropriate commercial rate as required under the Financial Reporting Manual. The debtor was recalculated using a discount rate of 6.6%, reducing the value from £2,469,000 to £1,460,000. The debtor was revalued to £1,496,000 as at 31 March 2008 to reflect revised rental payments and a commercial discount rate of 6.3%.
- In 2006-07 Forest Enterprise Scotland recognised a loss on disposal of £588,000 for the Forest Holidays business activity. Taking account of the professional revaluations, this resulted in an understatement of the surplus by £26,000. This amount has been charged to the Operating Cost Statement in 2007-08.

Review of the long term loan instruments showed that the amount allocated to Forest Enterprise Scotland in 2006-07 was overstated by £261,000. The loan value has been decreased to reflect this with a consequential adjustment recognised in 2007-08.

In accordance with the Forest Holidays' business plan, no returns have been received from the investment.

Note 8 Stocks

	2007-08 £000	2006-07 £000
Timber	2,093	2,188
Plants and seed	657	607
Consumable materials, supplies and livestock	584	581
	<u>3,334</u>	<u>3,376</u>

Note 9 Debtors

9(a) Analysis by type

	2007-08 £000	2006-07 £000
Amounts falling due within one year:		
Trade debtors	8,327	8,345
Other debtors	-	10
House purchase loans to employees	14	18
Partnership lease	97	81
Prepayments and accrued income	5,429	2,918
	<u>13,867</u>	<u>11,372</u>
Amounts falling due after more than one year:		
Partnership loan	1,150	1,411
Partnership lease	1,400	2,307
House purchase loans to employees	201	177
	<u>2,751</u>	<u>3,895</u>
	<u>16,618</u>	<u>15,267</u>

Forest Enterprise Scotland had house purchase loans totalling £215,000 outstanding at 31 March 2008 relating to 20 employees.

9(b) Intra-Government Balances

	Amounts falling due within one year		Amounts falling due after more Than one year	
	£000		£000	
	2007-08	2006-07	2007-08	2006-07
Balances with other central government bodies	134	69	-	-
Balances with local authorities	119	101	-	-
Balances with NHS Trusts	-	-	-	-
Balances with public corporations and trading funds	-	2	-	-
Intra-government balances	<u>253</u>	<u>172</u>	<u>-</u>	<u>-</u>
Balances with bodies external to government	13,614	11,200	2,751	3,895
Total debtors at 31 March	<u>13,867</u>	<u>11,372</u>	<u>2,751</u>	<u>3,895</u>

Note 10 Cash at banks and in hand

	2007-08 £000	2006-07 £000
Cash in hand	7	3
	<u>7</u>	<u>3</u>

Note 11 Creditors: amounts falling due within one year

11(a) Analysis by type

	2007-08 £000	2006-07 £000
Amounts falling due within one year:		
Trade creditors	2,909	2,810
Other creditors	42	24
Accruals and deferred income	2,045	1,835
	<u>4,996</u>	<u>4,669</u>

11(b) Intra-Government Balances

	Amounts falling due within one year		Amounts falling due after more than one year	
	£000 2007-08	£000 2006-07	£000 2007-08	£000 2006-07
Balances with other central government bodies	7	1	-	-
Balances with local authorities	17	43	-	-
Balances with NHS Trusts	-	-	-	-
Balances with public corporations and trading funds	1	1	-	-
Intra-government balances	<u>25</u>	<u>45</u>	-	-
Balances with bodies external to government	4,971	4,624	-	-
Total creditors at 31 March	<u>4,996</u>	<u>4,669</u>	-	-

Note 12 Provisions for liabilities and charges

	Early departure costs	Public legal claims	Other legal Claims	Total
	£000	£000	£000	£000
Balance at 1 April 2007	624	30	283	937
Provided in the year	39	1,020	37	1,096
Provisions not required written back	(1)	(30)	(31)	(62)
Provisions utilised in the year	(243)	-	(20)	(263)
Unwinding of discount	14	-	-	14
Balance at 31 March 2008	<u>433</u>	<u>1,020</u>	<u>269</u>	<u>1,722</u>

12(a) Early departure costs

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

12(b) Legal claims

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

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

Note 13 General fund

	2007-08 £000	2006-07 £000
Balance at 1 April	33,951	28,273
Net deficit for the year	(30,839)	(29,258)
Notional cost of capital	1,713	1,421
Cash deficit funded by Forestry Commission Scotland	35,058	32,332
Transfers of fixed assets from/to other Forestry Bodies	177	12
Transferred to general fund (realised element of revaluation reserve)	383	800
Timing between accrual and cash VAT	(43)	382
Non-cash inter-country transfers	11	(11)
	<u>6,460</u>	<u>5,678</u>
Balance at 31 March	<u>40,411</u>	<u>33,951</u>

Note 14 Revaluation reserve

	2007-08 £000	2006-07 £000
Balance at 1 April	10,409	8,579
Arising on revaluation during the year:		
Forest Holidays buildings	479	-
Dwellings and other buildings	2,473	2,630
VME	47	-
	<u>2,999</u>	<u>2,630</u>
Realised revaluation surplus	(383)	(800)
Balance at 31 March	<u>13,025</u>	<u>10,409</u>

The following realised revaluation surplus was transferred to the General Fund:

	2007-08 £000	2006-07 £000
Dwellings and other buildings	(383)	(800)

Note 15 Donated asset reserve

	2007-08 £000	2006-07 £000
Balance at 1 April	-	-
Additions during year	51	-
Revaluations	-	-
Release to I&E	-	-
Balance at 31 March	<u>51</u>	<u>-</u>

Note 16 Notes to the cash flow statement

	2007-08 £000	2006-07 £000
16a Reconciliation of net deficit to operating cash flows		
Net deficit for the year	(30,839)	(29,258)
Notional cost of capital	1,713	1,421
Depreciation charges	1,849	1,908
(Profit)/loss on sale of properties	250	540
Fixed asset write-off	22	32
Impairment of tangible fixed assets	11	8
(Profit)/loss on sale of other tangible fixed assets	108	29
Timing between accrual and cash VAT	(43)	382
Non-cash inter-country transfers	11	(11)
(Increase)/decrease in stocks	42	462
(Increase)/decrease in debtors	(1,351)	(5,932)
less movements in debtors relating to items not passing through I&E	(1,354)	3,799
Increase/(decrease) in creditors	327	358
Increase/(decrease) in provisions	785	(71)
Net cash outflow from operating activities	(28,469)	(26,333)

	2007-08 £000	2006-07 £000
16b Analysis of capital expenditure and financial investment		
Payments to acquire tangible fixed assets	(6,835)	(6,564)
Receipts from sale of properties	199	355
Receipts from sale of other tangible fixed assets	-	130
Lease repayments	-	81
Net Capital	(6,636)	(5,998)

	2007-08 £000	2006-07 £000
16c Analysis of financing		
Deficit funded by Forestry Commission Scotland	35,058	32,332
Donations toward capital expenditure	51	-
Financing	35,109	32,332

Note 17 Capital commitments

Amounts contracted for but not provided in the accounts amounted to £1,062,000 (2006-07: £70,000). This relates to outstanding building work on the construction of a toilet block at Welhill, Culbin, part of Moray Forest District (£116,000), architects fees on the Glentress Peel Visitor Centre (£63,000) and work on the Glenmore Sewage Project at Inverness Forest District (£802,000). There are also contracts for the delivery of vehicles in 2008-09 of £81,000.

Note 18 Commitments under leases

Operating leases

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

	2007-08 £000	2006-07 £000
Land and building leases expiring within:		
One year	-	4
Two to five years	24	24
More than five years	87	77
	<u>111</u>	<u>105</u>

	2007-08 £000	2006-07 £000
Other leases expiring within:		
One year	461	690
Two to five years	972	1,535
More than five years	-	47
	<u>1,433</u>	<u>2,272</u>

Note 19 Other financial commitments

There were no other financial commitments as at 31 March 2008. (£Nil at 31 March 2007).

Note 20 Contingent liabilities disclosed under FRS 12

Legal claims have been made from the public totalling £245,000 pertaining to accidents and damage to properties. Legal advice indicates that the claims can be successfully resisted and that no damages are likely to be awarded.

Note 21 Related party transactions

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

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

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

Martin Gale, a non-executive Forestry Commissioner, was Chairman of Tilhill Forestry until 30th May 2007 and Vice President of UPM Corporation until 30th May 2007 and is a non-executive Director of BSW Timber plc. UPM Corporation is the parent company of Caledonian Paper and Tilhill Forestry Ltd. Tilhill Forestry has an interest in BSW Timber plc.

The value of purchases from Forest Enterprise Scotland were:

BSW Timber plc	£4,493,000
Caledonian Paper	£2,660,000
Tilhill Forestry	£3,063,000

Amounts owing to Forest Enterprise Scotland at 31 March 2008 were:

BSW Timber plc	£941,000
Caledonian Paper	£291,000
Tilhill Forestry	£391,000

Michael Ansell, a member of the Forest Enterprise Scotland Management Board, is the owner of Braidenoch that received forestry grants totalling £530.

The partner of Stephanie Atwell, a member of the Forest Enterprise Scotland Management Board, received a forestry grant of £157 through his business HM Paton & Co.

Note 22 Losses statement

Losses totalled £87,000 from 15 cases (£33,000 from 29 cases in 2006-07).
Special payments totalled £1,141,000 from 27 cases (£275,000 from 36 cases in 2006-07).

Note 23 Post balance sheet events

These financial statements were authorised for issue on 23 July 2008 by the Accountable Officer.

Note 24 Financial instruments

FRS 13, *Derivatives and Other Financial Instruments*, requires disclosure of the role which financial instruments have had during the period in creating or changing the risks an entity faces in undertaking its activities. Because of the nature of its activities and the way in which the agency is financed, Forest Enterprise Scotland is not exposed to the degree of financial risk faced by business entities. Moreover, financial instruments play a much more limited role in creating or changing risk than would be typical of the listed companies to which FRS 13 mainly applies. The agency has no powers to borrow or invest surplus funds and financial assets and liabilities are generated by day-to-day operational activities and are held not to change the risks facing the department in undertaking its activities.

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

Liquidity risk

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

Interest-rate risk

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

Foreign currency risk

Forest Enterprise Scotland is not exposed to foreign currency risk.

Fair Values

There is no difference between book value and fair value for the cash at bank shown in Note 9. Fair value for the provisions shown in Note 11 is not significantly different from book value since, in the calculation of book value, the expected cash flows have been discounted by the Treasury rate of 3.5% in real terms.

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

1. The Scottish Ministers, in pursuance of section 45(1) of the Forestry Act 1967, hereby give the following direction.

2. The Forestry Commission shall prepare accounts for Forest Enterprise Scotland for the financial year ended 31 March 2006 and subsequent years, comprising:

- (a) an annual report;
- (b) a statement of Accountable Officer's responsibilities;
- (c) a statement on internal control;
- (d) an income and expenditure account;
- (e) a statement of total recognised gains and losses;
- (f) a balance sheet; and
- (g) a cash flow statement,

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

3. The accounts shall give a true and fair view of the income and expenditure, and cash flows for the financial year, and the state of affairs as at the end of the financial year.

4. Subject to this requirement, the accounts shall be prepared in accordance with:

- (a) generally accepted accounting practice in the United Kingdom (UK GAAP) having regard for the requirements of the *Government Financial Reporting Manual*; and
- (b) the disclosure and accounting requirements contained in guidance which the Scottish Ministers may issue from time to time in respect of accounts which are required to give a true and fair view;

insofar as these are appropriate to Forest Enterprise Scotland and are in force for the financial year for which the accounts are to be prepared.

5. Additional requirements are set out in **Schedule 1** attached.

6. Clarification of the application of the accounting and disclosure requirements of the Companies Act and accounting standards is given in **Schedule 2** attached.

7. The **income and expenditure account** and **balance sheet** shall be prepared under the historical cost convention modified by the inclusion of:

- a. buildings and associated land at their existing use value where a market exists, otherwise at depreciated replacement cost;
- b. machinery, plant and equipment at current replacement cost;
- c. commercial recreation assets at their existing use value; and
- d. stocks of seed at the lower of cost or net realisable value, stocks of plants and livestock at net realisable value and stocks of consumable materials at current replacement cost.

8. This direction shall be reproduced as an appendix to the accounts and supersedes that dated 6 July 2005.



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

Schedule 1

ADDITIONAL REQUIREMENTS

Annual Report

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

Income and Expenditure Account

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

- a. under "operating income":
 - sales of timber
 - other forest sales
 - other activities
 - b. under "operating expenditure (by activity)":
 - harvesting and haulage of timber
 - restocking after felling
 - forest roads
 - forest maintenance and protection
 - other activities
 - c. the resulting operating surplus/deficit shall be shown as a separate heading
 - d. under "recreation, conservation and heritage":
 - income
 - expenditure
 - e. giving operating surplus/deficit net of recreation, conservation and heritage
 - f. the surplus/deficit arising from the sale of properties and the notional cost of capital
 - g. the "net surplus/deficit for the year" which shall be transferred to the general fund.
3. Minor changes may be made to the headings in the accounts without the approval of Scottish Ministers.

Notes to the Accounts

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

Schedule 2

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

Companies Act

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

Accounting Standards

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