



# **ANNUAL REPORT AND ACCOUNTS 2008-09**

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## **INTRODUCTION by Dr Calum MacDonald, Chair, National Committee Scotland**

Forestry Commission Scotland is active right across our country, from the most remote, rural areas to the most intensely urban.

The wide sweep and huge public benefit of its work never ceases to surprise: designing a ground-breaking play-area for the new Merrylee school in Glasgow; showcasing the latest in low-carbon architecture; tackling climate change through biomass heat and carbon sequestration; winning national and international prizes for its achievements in tourism and recreation; and, of course, looking after the nation's expanding woodlands and the rich and spectacular habitats they provide.

This is my last year as Chairman and so I want to pay special tribute to the incredible, multi-tasking staff of FCS. Year after year, they set the highest possible standards of public service.

Looking back over my term, I draw my greatest satisfaction from contributing to the new strategy for renewables on the national forest estate. The renegotiation of our existing contracts has already added £7 million per annum to their value. From the end of this year, the power to develop and operate wind farms will enable the forest estate operations to become not only self-financing for the first time ever, but also a net contributor to the taxpayer. In addition, FCS is positioned to make a huge and decisive contribution to the United Kingdom's 2020 targets for reducing greenhouse emissions.

I am confident, therefore, that the future for the Forestry Commission in Scotland will be even more exciting and productive than the past three years which I have so greatly enjoyed.

# AITHISG BHLIANDHNAIL IS CUNNTASAN

## FACAL-TOISICH

Tha Ùghdarras Coilltearachd na h-Alba gnìomhach anns gach ceàrn den dùthaich againn, bho na sgìrean dùthchail as iomallaiche chun an fheadhainn as bailteile.

Tha leud na h-obrach agus am fìor shochair a tha ann don phoball na chùis iongnaidh do dhaoine: a' dealbh raon-cluiche ùr-ghnàthach airson sgoil ùr Merrylee an Glaschu; a' foillseachadh ann an ailttearachd carbon-ìseal as ùire; a' cur aghaidh air atharrachadh aimsir tro theas bho bhith-chonnadh agus dealachadh carbon; a' buannachadh duaisean nàiseanta agus eadar-nàiseanta airson na rinn e airson turasachd agus cur-seachad; agus, cuideachd, a' coimhead às dèidh coilltean na dùthcha a tha a' sìor leudachadh agus na h-àrainnean luachmhor agus maiseach a bhuineas dhaibh.

'S e seo a' bhliadhna mu dheireadh agamsa mar Chathraiche agus mar sin tha mi airson taing shònraichte a thoirt do luchd-obrach FCS a tha a' dèanamh sàr-obair de dh'iomadh seòrsa. Bliadhna an dèidh bliadhna, tha iad a' nochdadh ìrean seirbheis phoblach cho àrd 's a ghabhas.

A' coimhead air ais air an teirm agam, 's e an toileachas as motha a bhith a' cur ris an ro-innleachd ùr airson lùthan ath-nuadhachail air oighreachd nàiseanta nan coilltean. Tha ath-rèiteachadh nan cùmhnantan a tha againn air £7 millean gach bliadhna a chur ris an luach aca. Bho dheireadh na bliadhna seo, bheir an cumhachd airson a bhith a' cruthachadh agus ag obrachadh tuathan-gaoithe cothrom do dh'obair oighreachd nan coilltean a bhith chan ann a-mhàin ga mhaoineachadh fhèin airson a' chiad uair a-riamh, ach cuideachd a' cur ri phàigheadh cìse. Còmhla ri sin, tha FCS comasach air cur ri targaidean 2020 na Rìoghachd Aonaichte airson lùghdachadh air sgaoileadh gasaichean an taigh-ghlainne.

Mar sin, tha mi cinnteach gur ann a bhios na bliadhnachan ri teachd nas inntinniche agus nas toraiche airson Ùghdarras na Coilltearachd an Alba na bha na trì bliadhnachan a chaidh seachad a tha air còrdadh riumsa cho mòr.

**Calum MacDhòmhnaill**  
Cathraiche Comataidh Nàiseanta Alba

## 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](http://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 2008-09 annual budget for Forestry Commission Scotland is approved by the Budget (Scotland) Act 2008 and revised by:

- the 2008-09 Autumn Budget Revision to the Budget (Scotland) Act for the year ending 31 March 2009; and
- the 2008-09 Spring Budget Revision to the Budget (Scotland) Act for the year ending 31 March 2009.

### **KEY PERFORMANCE INDICATORS**

The Key Agency Targets set by the Forestry Commission National Committee for Scotland for 2008-09 for Forest Enterprise Scotland to manage and the actual outturns were:

<b>AIM</b>	<b>KEY TARGET</b>	<b>Measure</b>	<b>Achieved</b>	<b>Target</b>
1. Manage the forested estate in accordance with the principles of sustainable forest management	a. Percentage of the national forest estate independently certified as being sustainably managed.	%	100%	100%
2. Improve the appearance of the National Forest Estate	b. Area of woodland managed using alternatives to clearfelling	Ha	73,162	30,000
3. Maximise the value to the Scottish Economy of the estate's timber resource	c. Volume of wood harvested in relation to the sales plan	km <sup>3</sup> (+/- 5%)	2,853 (-13.2%)	3,285
4. Focus on forestry for people	d. Area managed within 4 km of settlements of more than 500 people that meet the accessible woodland standard.	Ha	82,141	Identify and agree existing area on the National Forest Estate
5. Make best use of other forest products and estate assets	e. Maximise the opportunity for net income from development activities	£m	6.9	6.9
6. Maintain an efficient and effective organisation	f. Cash deficit (+/- 1%)	£m	27.2	28.4
	g. Total Direct Production Unit Cost (excluding Haulage) not to exceed	£/m <sup>3</sup>	12.52	11.50

AIM	KEY TARGET	Measure	Achieved	Target
7. Contribute to Climate Change mitigation through reducing the agencies carbon footprint	h. Annual % reduction in carbon emissions from offices	%	Data not available.	3%
	i. Annual % reduction in carbon emissions from administrative travel	%	5%	5%
	j. Volume of wood supporting renewable energy schemes	km3	118	100

## **MANAGEMENT COMMENTARY**

### ***Review of the year***

Forestry Commission Scotland contributes in many ways to the government's national priorities. The following section highlights some of the most significant items that have affected the organisation this year. The Forestry Commission Scotland Annual Review, published separately, provides further detail and information on these and other achievements.

### **Cross cutting issues**

This has been a year of consolidation and laying down a sound basis for coming years. We have worked hard setting in place a huge range of projects and plans that will enable us to meet the Scottish Forestry Strategy Implementation Plan 2009-2012 targets.

The Implementation Plan, launched at the end of the year, pinpoints key actions for the coming three years. Over 250 actions are proposed and will be carried out in partnership with at least 67 different organisations to drive forward progress in areas such as business development, climate change, communities, access and health, and biodiversity.

Following this year's consultation feedback the Forest Enterprise Scotland Strategic Plan for the National Forest Estate 2009-13 is being revised and will be available from Summer 2009. The Framework Strategic Plan defines how we will implement the Scottish Forestry Strategy on the national forest estate. Effective delivery requires an appropriate organisational structure and in October we announced the results of the review of Forest Enterprise Scotland. This reduced the number of forest districts from 14 to 10.

Any review of this year needs to mention the downturn in the economy. The construction and timber processing sectors are closely linked and so, in the autumn, we started to witness a reduction in demand for timber coupled with a reduction in timber prices. This very rapidly fed through to timber processors with many mills in particular taking out capacity and moving onto shorter working weeks with a corresponding impact on staff. There has been a further knock-on impact up the supply chain to the haulage, contracting and forest management sectors.

However, on a positive note the weakening of the sterling has enabled domestic producers to remain competitive and maintain market share albeit with reduced demand. There is still commitment to significant investment by those in the industry as illustrated by James Jones starting construction on their new £20m Lockerbie facility, the soon to be opened Balcas CHP facility at Invergordon, and BSW are also making further investment in their sawmill at Kilmallie.

Our Climate Change Action Plan sets out the actions for the next three years to increase the contribution and response of Scottish forestry to the challenges of climate change. Forestry is seen as one of the main strands in tackling the effects of climate change. The Scottish Government's Climate Change Bill gave an opportunity to explore what legislative changes could provide greater flexibility in the use of the national forest estate for tackling climate change.

This generated considerable debate, particularly the pressing need to plant more trees, and after due consideration of the consultation responses the Environment Minister is exploring options to raise funds to support woodland creation and further the development of biomass schemes. One idea being pursued is for us to enter joint ventures to deliver an income stream from renewable energy ventures.

After a two-year period without a grant support mechanism the new Scotland Rural Development Programme (SRDP) was launched during the year. For the first time the forestry sector has access to a wide range of grants including business, woodland creation and management, and rural development grants - as forestry, agriculture and environmental incentives have been integrated into the Rural Development Contracts (RDCs).



We have worked closely with Scottish Government planners to embed forestry into the new National Planning Framework. Currently before Parliament it recognises the role of greenspace and woodland. Alongside this a suite of new Indicative Forestry Strategies are in preparation (and revised planning guidance on IFS preparation will capture best practice). They integrate national strategies at a local level and set out a vision of how forestry can contribute to the environment and economy of an area and how these can be delivered through both planting of new woodlands and the restructuring of existing ones.

At the UK level the Forestry Commission is launching a consultation on a revised UK Forestry Standard and a new set of Guidelines. We have been involved at all stages to ensure it meets Scotland's requirements.

A new implementation structure for the Scottish Biodiversity Strategy has been launched. A Woodland Ecosystem Group was set up to co-ordinate woodland biodiversity planning and delivery including all relevant priority habitats and species.

Interest and involvement of communities in woodland continues to grow and the National Forest Land Scheme entered a new phase with forest crofts being added to the scheme. There is also growing interest in community renewables and we had our first application for land transfer for a renewable energy scheme, in this case a windfarm.

Woodlands In and Around Towns (WIAT) began its second phase this year with the launch of WIATII, which will continue as the delivery mechanism for improving quality of life and well-being across urban Scotland.

**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:

- Started the £2.5m Scottish Biomass Heat scheme;
- Reported the Woodfuel Taskforce recommendations to the minister;
- Launched our Climate Change Action Plan;
- Published the Scottish Government's documents on expanding woodland cover and controlling woodland removal;
- Worked to monitor and plan for pest and disease outbreaks and intense weather events resulting from climate change;
- Established the Carbon Advisory Group; and
- Consulted on the Scottish Climate Change Bill provisions.

**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:

- Offered £6.5 m in grant awards through the Strategic Timber Transport Fund;
- Held a conference promoting using Scotland's home-grown timber to help create jobs, wealth and a cleaner, greener economy;
- Published new guidance on 'Sustainable Timber Construction' and 'Designing Housing with Scottish Timber';
- Set up the Private sector Production Forecast Working Group; and
- Won the Royal Institute of Chartered Surveyors Scotland 2008 Sustainability Award for our Inverness Office at Smithton.

**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:

- Set up the 7stanes business bus to help businesses benefit from the growing mountain bike market;
- Continued to see an expansion in the wood energy sector;
- Won the prestigious Thistle Award for Customer Care at Huntly Peregrine Wildwatch;
- Gave relevant woodland tourism staff 'one hundred thousand welcomes' (Ceud mille failte) training;
- Continued with our Modern Apprentices programme which now has funding for 30 apprentices and one of our apprentices won Lantra's Best Apprentice of the Year award;
- Continued to support volunteering; and
- Supported the forestry element of vocational qualifications in secondary schools.

**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:

- Amended the national Forest Land Scheme to open up forests for woodland crofts;
- Extended Woods In and Around Towns (WIAT) to a second three year phase with a further commitment of around £24m;
- Set up the Edinburgh and Lothians Forest Habitat Network Partnership;
- Reviewed our commitment to working with communities;
- Expanded the Forest Education Initiative; and
- Produced a booklet 'Volunteering on the National Forest Estate'.

**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 visitor survey of the national forest estate;
- Appointed three new people to work on the health benefits from woodlands;
- Set up an initiative, Khush Dil, to encourage black and ethnic minority families and community groups to enjoy the health benefits of woodlands;
- Piloted Branching Out a greenspace on referral project;
- Were involved in a project which has succeeded in getting mountain biking as a core PE option and in after school programmes;
- Researched the levels of physical activity associated with Forest School; and
- Funded the Forestry for People Challenge Fund.

**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:

- Airlifted trees from Wilsontown Ironworks to protect our industrial heritage
- Received an inland Bathing Water Award for Loch Morlich;
- Discovered cup and ring marks in woodland in Argyll;
- Helped promote Scotland's historic environment with the publication of 'Scotland's Woodlands and Historic Environment';
- Developed a course on designing urban woodlands;
- Developed guidance on restoring and managing ancient wood pasture; and

- Worked on the draft River Basin Management Plans and Area Management Plans.

**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:

- Consulted on setting up squirrel stronghold areas and worked with partnership projects to control greys;
- Continued mapping Scotland's Native Woods;
- Worked to improve the condition of protected woodland sites with a £5m programme;
- Helped tackle the threat from rhododendron by appointing a new project officer; and
- Published our new biodiversity programme 'Woods for Nature'.

## Other Disclosures

### Personal Data Related Incidents

There were no protected personal data related incidents reported for Forestry Commission Scotland in 2008-09. 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

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 focussed on improving forestry's preparedness for climate change and in achieving the forest sector's carbon saving targets. Improving the research evidence base, especially for woodland related carbon stocks and fluxes and adaptation requirements, will continue to be a priority. Our focus in the coming year will include:

- Publishing the Forests and Climate Change Guidelines;
- Working with the Carbon Advisory Group to regularise the carbon offsetting sector;
- Working with Forest Research to initiate research on pest species/climate change interactions; and
- Exploring what types of 'future forests' might best meet the social, economic and environmental challenges of our changing climate.

**Timber:** We will continue to be active in promoting greater use of timber and work to support a timber industry that can increase its benefits to local communities and the environment. During the coming year we will be:

- Promoting predictable and stable timber supplies such as a method for forecasting log quality in the production forecast;
- Encouraging more use of timber including supporting research into innovative uses of wood for high-end market values;
- Increasing timber supply chain efficiency and support a Timber Transport Project Officer post; and
- Developing the hardwood and premium softwood sector.

**Business development:** With the new Scottish Rural Development Programme in place we have been working with colleagues in the Scottish Government to provide an effective delivery mechanism through the Scottish Environment and Rural Services and in the coming year we will be encouraging increased uptake of forestry business diversification measures. Moving forward our key challenges will be:

- Developing proposals for renewable energy joint ventures to stimulate increased economic activity on the national forest estate;
- Implementing a cultural heritage events programme on the national forest estate for the 2009 Year of Homecoming; and
- Raising awareness amongst women, minority ethnic groups and other diversity groups of career opportunities in forestry.

**Community development:** Our work over the last year has continued to improve quality of life and well-being for people in urban and rural communities across Scotland. Over the next year our particular focus will include:

- Developing forestry's role in education and lifelong learning;
- Developing forestry's role in the health and well being of communities; and
- Supporting community ownership and management on the national forest estate, where this will bring increased benefits.

**Access and health:** We have again been involved in a wide variety of events and activities that help towards improving access to woodlands and improving the health of everyone in Scotland. Our main aims for the next year are:

- Contributing to health and improvement and narrowing the health gap in Scotland by increasing the number of people who visit woodlands and the outdoors;
- Making access to woodlands easier for all sectors of society;
- Using woodland access to help improve physical and mental health in Scotland; and
- Providing a greater range of ways for people to enjoy woodlands.

**Environmental quality:** During the year we have been reviewing and updating the UK Forestry Standard and associated suite of Guidelines and they will be published for full public consultation in the coming year. We will also be working on:

- Promoting the revised UK Forestry Standard and associated suite of Guidelines, including the development and provision of education and training courses;
- Completion and publication of the ongoing work to review the availability of national, regional and local historic environment sources of advice and information for woodland managers and their advisers; and
- Development and prioritisation of actions for Scotland's trees and woodlands that respond to the aspirations of the European Landscape Convention, and incorporate the anticipated changes from climate change.

**Biodiversity:** Over the coming year we will continue to work to restore, maintain and enhance Scotland's biodiversity and increase people's awareness and enjoyment of it. Key areas for focus in 2009-10 will be:

- Helping reverse biodiversity decline by targeted action including providing biodiversity advice for preparation of Indicative Forestry Strategies and Development Plans;
- Helping reverse biodiversity decline by broader actions;

- Increasing awareness of woodland biodiversity by including woodlands in the Scottish biodiversity Strategy awareness campaign; and
- Improving knowledge for better decision making.

## **CORPORATE SOCIAL RESPONSIBILITY**

### **Business Sustainability**

We have made progress in number of areas during 2008-09. The former Greenerways programme has now been rebranded as “Business Sustainability” and a number of staff have been identified to support the rollout of the various initiatives to improve environmental management. The programme is still in a developmental phase, with effective data capture and management the key task, to facilitate Government reporting and achievement of internally set targets.

We are working to develop three new monitoring systems for energy use, waste, and travel so we can both report on overall performance in reducing emissions and support managers in the delivery of targets. The volume of data to be collected is significant with a large number of sources, and ensuring that data within the systems is accurate is taking longer than expected.

We are making good progress with the development of an Environmental Management System (EMS). We have put in place most of the component parts of the EMS, and will be looking to finalise this in 2009-10, with a view to seeking external accreditation to ISO14001:2004.

We continue to apply the climate change principles to our own footprint. We have introduced wood burning heating systems to our office in Huntly and the new environmentally friendly office in Golspie, which is shared with SNH, Highlands and Islands Enterprise and Scottish Government Rural Payments and Inspections Directorate as part of the SEARS initiative. The building is constructed using wood from our own forests with European larch for cladding, Douglas fir as the structural timber and oak and as the hardwood finishings.

### **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.

### **People**

Work has continued on implementation of our People Strategy and Action Plan. We have completed the reviews of our Postfilling / Recruitment, and Discipline & Grievance policies and procedures begun last year. We have implemented a number of modernisation reforms of our pay system identified by the review of our Pay & Reward Strategy, and have completed a review of our employee benefits package. A new Whistleblowing policy has been introduced.

### **Equality and Diversity**

We have continued to allocate a high priority to the Commission’s Equality and Diversity agenda throughout 2008-09. This issue was regularly discussed at senior meetings during the year, and more resources were committed. This included forming a discrete Diversity Team within Human Resources, responsible for promoting diversity throughout the organisation, ensuring legal compliance, creating and implementing necessary systems and processes to support the organisation.

During the year, we published:

- our Equality and Diversity Strategy, detailing our high level aims for embedding equality and diversity in the Commission, how we intend to achieve this and who is responsible for doing so;
- a new Race Equality Scheme and accompanying Action Plan; and
- Equality Impact Assessment (EqIA) Guidance, delivered training on it and created the necessary infrastructure to embed EqIA across our organisation.

Training is a vital element of equality and diversity and we have commenced an exercise to review all the training we deliver to ensure that equality and diversity issues are recognised both in the training content and delivery. We are also in the process of delivering equality and diversity awareness training to all our staff.

It is clear that there is much work to do within our organisation, so that the Commission's staff represents the diversity of the wider community. Our Monitoring Reports reveal that the representation of people from black, minority and ethnic (BME) backgrounds and of people with disabilities amongst our staff remains very low.

It will be very difficult to change our staff profile to reflect the communities we serve without attracting more applicants from those groups that are presently under-represented. We have commenced work to attempt to increase the number of applicants, ranging from new advertising approaches to commissioning research to understand the reasons why people from BME and disabled groups do not apply to work for us.

Meanwhile, we continue to develop innovative projects and initiatives to ensure that the services we provide to people who visit our forests are as diverse as possible. Most of our forests have walks designed for people who have a physical disability. Many of our paths have sensory interpretation features for those with sight impairment. We encourage community engagement and have had success in bringing many people into our forests that might not otherwise have visited. These include those with mental illness, schoolchildren, older people and ethnic minority groups. Our outreach programmes are set to expand over the coming year and all our recreation work in the forests will be completed with equality and diversity firmly in mind. Our recreation and education staff are receiving training specifically designed to help them to facilitate the enjoyment of the forests for those people from groups representing the six strands of diversity. The facilities and opportunities we have to offer will continue to expand, offering the health and recreation benefits available from forests to an increasingly diverse range of visitors.

## **Learning and Development**

The Learning and Development group continued to be heavily involved in the implementation of the People Strategy. On the development side this included:

- delivering diversity training to senior managers, staff involved in policy making and piloting general awareness training to the whole staff group;
- delivering new interview and post filling training incorporating the competency framework and changes to HR practice;
- introducing the front line management development programme to Scotland; and
- putting in place framework agreements for external provision of training.

## Health and Safety

### Policy

It is the Commission's policy 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 introduced systems to improve the way we manage our construction work including roads, trails and buildings. Next year we will work on a project to improve the management of chainsaw use in the Commission.

### Accidents

The following figures set out the incidence of reportable accidents (those causing incapacity for more than three days) for all staff in 2008-09 and the preceding years.

<b>Year</b>	<b>No of accidents per 100 employees</b>
2008-09	0.76
2007-08	1.42
2006-07	1.32
2005-06	1.12
2004-05	1.24

## Honours

The following Scottish based Forestry Commission nominees were successful in The Queen's Honours List:

Richard Trevor Broadhurst OBE. Lately FC Scotland, Silvan House. For public and voluntary service;

Boyd Jamieson Glen MBE. Lately Financial & Accounting Services, Silvan House. For services to the Lanthorn Community Complex, Livingston, West Lothian;

Mr Robert Norman (Bob) Jones MBE. Lately Head of Design and Interpretative Services, Forestry Commission Scotland. For services to forest and heritage interpretation;

Mrs Susan Ann (Sue) Evans MBE. Head of Development, Central Scotland Forest Trust. For services to Forestry; and

Andrew Smith MBE. Purchasing Director, BSW Timber plc. For services to the Scottish Forestry Industry.



## LEADERSHIP AND GOVERNANCE

### *Ministers*

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

Richard Lochhead MSP	Cabinet Secretary for Rural Affairs and the Environment
Michael Russell MSP	Minister for Environment (until February 2009)
Roseanna Cunningham MSP	Minister for Environment (from February 2009)

### *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
Helen Paterson	Human Resources Business Partner (from September 2008)
Hugh Insley	Chief Executive, Forest Enterprise Scotland
Sheryl May	Head of Communications and Secretariat, Forestry Commission Scotland

## ***Forest Enterprise Scotland Management Board***

The Agency Management Board gives strategic direction and leadership to the forest districts within Scotland. The membership for 2008-09 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 (until October 2008)
Helen Paterson	Human Resources Business Partner (from October 2008)
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](http://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  
Calum MacDonald

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; and
- 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.

Identified as the main risk in the year was the 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. Whilst this was mitigated by targeting woodland creation to maximise public benefits; by extending the FES carbon afforestation programme and developing a woodland expansion strategy with ministerial support to secure innovative ways to fund expansion, this remains a high risk.

An emerging risk in the year was the impact of the global economic downturn on Forest Enterprise Scotland's ability to generate earned income, notably from timber sales. Any shortfall in earned income that cannot be compensated by other income would restrict our ability to deliver the Scottish Forestry Strategy. Throughout the year management monitor out turn against budget and take the necessary actions to adjust costs and/or secure alternative funding if there are significant shortfalls in earned income.



# RESOURCE ACCOUNTS 2008-09

## **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 2008-09 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 increase in valuation of the Forest Estate which places a hugely significant burden by raising the cost of capital charge borne in the operating cost statement. Since 2005-06 this has risen by 101 % to this year's high of £32.0M;
- the uncertainty of the level of uptake by the private sector of forestry grants;
- response to wider Government initiatives to support small and medium businesses by organising quicker payment of bills; and
- Forest Enterprise's ability to generate income from timber sales and other development opportunities on the Forest Estate.

Programme expenditure recorded a reduction of £4.9M compared to last year principally from a £15M reduction in support for private forestry, arising from the slow uptake of grants, and partly offset by an increase of £8.8M in the cost of capital charged on the Forest Estate following an increase in the valuation of the plantations.

Net assets have increased by £156M mainly due to the upward revaluation of the Forest Estate.

## Significant variances against estimate

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

£000	Estimate	Outturn	Difference
Total resource	89,335	89,188	147
Net cash requirement	70,735	47,961	22,774

The overall resource outturn was close to estimate.

£70,735K cash estimate comprises the total cash funding voted from the Scottish Government. Of this, Forestry Commission Scotland drew down £62,500K during the year. A £17M increase, when compared to estimate, arose in cost of capital following revaluation of the Forest Estate. A saving of £18M on payment of private woodland grants, because of slow uptake, afforded the opportunity to switch resource to meet this increase in non-cash. It was anticipated that because of the general economic downturn we would require additional cash draw down to help us meet revised supplier payment terms and the potential of us being paid late by our own customers. However the forestry sector remained quite resilient and the provision was not required.

## 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

Forestry Commission Scotland complies with the Government's Better Payment Practice Code. From 1 December 2008, unless otherwise stated in the contract, we aim to pay within 10 working days from the receipt of goods and services or the presentation of a valid invoice, whichever is the later (previously 30 working days).

A sample analysis indicates that:

- for the period 1 April 2008 to 30 November 2008, 98.3% of invoices were paid within the 30 working days deadline; and
- for the period 1 December 2008 to 31 March 2009, 97.5% of invoices were paid within the 10 working days deadline.

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.

### Staff Sickness Absence

Forestry Commission Scotland pro-actively manages staff sickness absences with an average number of working days lost per person during 2008-09 of 4.25.

### Auditors

The accounts of Forestry Commission Scotland 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 the 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 the Forestry Commission Scotland's auditors are aware of that information.

R McIntosh  
Accountable Officer  
1 July 2009

## REMUNERATION REPORT

### REMUNERATION POLICY

Fees for non-executive Commissioners and National Committee members 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, including 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](http://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 which 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 1 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:

	<b>Date of current contract/letter</b>	<b>Unexpired term (months*)</b>
Dr Calum MacDonald	1/4/2006	-
Martin Gale	1/4/2006	-
Richard Wakeford	n/a	n/a
Simon Pepper	26/6/2006	3
Simon Rennie	27/11/2006	8



## AUDITED ELEMENT OF THE 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:

	2008-09		2007-08	
	Salary £000	Benefits in kind to nearest £100	Salary £000	Benefits in kind to nearest £100
Dr Bob McIntosh	115-120	-	110-115	-
Paul Snaith	60-65	-	55-60	-
Simon Hodge	85-90	-	80-85	-
Helen Paterson	20-25 <sup>1</sup>	-	-	-
Sheryl May	30-35 <sup>2</sup>	-	-	-
James Simpson	45-50	-	45-50	-

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 2008-09 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 2008 £000	Balance at 31 March 2009 £000	Maximum balance during the year £000
Paul Snaith	1	-	1

<sup>1</sup> Figure quoted is for the period 29 September 2008 to 31 March 2009. The full year equivalent is 40-45.

<sup>2</sup> Figure quoted is for the period 21 April 2008 to 12 December 2008. The full year equivalent is 45-50.

## PENSION BENEFITS

	Accrued pension at pension age at 31 March 2009 and related lump sum	Real increase in pension and related lump sum at pension age	CETV at 31 March 2009	CETV at 31 March 2008*	Real increase in CETV	Employer contribution to partnership pension account
	£000	£000	£000	£000	£000	Nearest £100
Bob McIntosh	45-50 plus LS of 135-140	0-2.5 plus LS of 0-2.5	1,007	923	8	-
Paul Snaith	30-35 plus LS of 0-5	0-2.5 plus LS of 0-2.5	540	474	21	-
Simon Hodge	15-20 plus LS of 50-55	0-2.5 plus LS of 0-2.5	277	243	9	-
Helen Paterson	0-5 plus LS of 0-5	0-2.5 plus LS of 0-2.5	3	-	3	-
Sheryl May	0-5 plus LS of 0-5	0-2.5 plus LS of 0-2.5	6	-	5	-
James Simpson	10-15 plus LS of 25-30	0-2.5 plus LS (0-2.5)	192	168	8	-

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

## CIVIL SERVICE PENSIONS

Pension benefits are provided through the Civil Service Pension arrangements. From 30 July 2007, civil servants may be in one of four defined benefit schemes: either a 'final salary' scheme (classic, premium, or classic plus), or a 'whole career' scheme (nuvos). These statutory arrangements are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under classic, premium, classic plus and nuvos are increased annually in line with changes in the Retail Prices Index (RPI). Members joining from October 2002 could opt for either 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 pensionable salary for each year of service. In addition, a lump sum equivalent to three years' pension is payable on retirement. For premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum. 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 2.3% 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 Civil Service pension arrangements can be found at the website <http://beta.civilservice.gov.uk/pensions>

## CASH EQUIVALENT TRANSFER VALUES

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies. The figures include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the Civil Service pension arrangements 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 in accordance with The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 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 taken.

## 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 2009:

	<b>2008-09 £000</b>	<b>2007-08 £000</b>
Simon Pepper	6	4

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 2008-09. Richard Wakeford, a member of the National Committee for Scotland, is employed by the Scottish Government as Head of Environment and Rural Affairs 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  
Accountable Officer  
1 July 2009

## 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 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 2009 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. Details of our risk management policy and principle risks are shown in the Leadership and Governance section of the report (page 17).

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 2009 and up to the signing of the accounts, Forestry Commission Scotland has:

- Consolidated the risk management process by organising a group of representative senior and line managers from Forestry Commission Scotland and Forest Enterprise Scotland in March 2009 to review the Forestry Commission Scotland risk register. This group considered current content, scoring, adequacy of controls and identified omissions. The resultant fully updated Risk Register was considered by members of the Management Board during March 2009 and formally approved by the Board in April 2009.
- Participated in the Forestry Commission wide, Risk Management Group (RMG), which met on 5 March 2009 to consider and ensure continued development of risk management and business continuity planning by refreshing current policy and procedures. It also provided a valuable focus group for sharing of best practice across the Forestry Commission as a whole.
- With active involvement of responsible line managers, prepared a series of six Business Continuity Plans (BCPs) covering the whole geographical spread of the organisation. This process built on work previously undertaken for the Forestry Commission by an independent Risk Consultant and was driven by an in-house dedicated project officer to ensure consistency of approach and a common standard across the organisation in Scotland. 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.
- Worked with an external consultant, Departmental Security Officer and IT Security Officer, to undertake a risk assessment of the organisations security requirements for its information assets by identifying threats and vulnerabilities and is now considering a set of controls to reduce the risks in accordance with ISO 27001 as the standard on Information Security Management systems.

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 June 2008, November 2008, March 2009 and July 2009. 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.

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
- 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. During 2008-09 the ARC formally considered its effectiveness and identified and addressed perceived weaknesses around induction. It recognised that there would be some benefit in trying to ensure the induction process for non-exec National Committee and ARC members is both speedy and sufficiently detailed to maximise their contribution.

#### **4. Information Assurance and Data Handling**

The Forestry Commission has appointed its Director Finance as the Senior Information Risk Owner (SIRO). The SIRO chairs the Information Security Management Forum (ISMF) which co-ordinates and controls the implementation of information security across the Forestry Commission. It has met on nine occasions during the year. The work of the ISMF is supported on a day to day basis by the Departmental Security Officer (DSO) and the IT Security Officer (ITSO).

In determining our approach, the Forestry Commission has taken the view that, in comparison with other government departments, our information systems hold a relatively small number of records and that the volume of sensitive information requiring a protective marking is relatively low.

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

- distributed the guidance publication, *Managing Information Risk*, to Accountable Officers, Chair of the Audit Committee and Board members to assist them in understanding information risk;
- FCGB has published an Information Charter setting out the standards that people can expect from us when we request or hold their personal information;

- encrypted all existing laptops that connect to the network;
- produced new guidance on marking protective documents;
- established an information asset register and undertaken detailed risk assessments; and
- appointed Information Asset Owners (IAOs) for corporate systems.

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

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

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

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

## **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.

Plans to address weaknesses and major risks and to ensure continuous improvement of the business are in place. Requiring particular attention during 2009-10 are:

- The 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. Whilst this was mitigated in 2008-09 by targeting woodland creation to maximise public benefits; by extending the FES carbon afforestation programme and developing a woodland expansion strategy with ministerial support to secure innovative ways to fund expansion, achievement remains a high risk.
- Forest Enterprise Scotland's ability to generate earned income, notably from timber sales. Any shortfall in earned income that cannot be compensated by other income would restrict our ability to deliver the Scottish Forestry Strategy. Throughout the year management will monitor out turn against budget and take the necessary actions to adjust costs and/or secure alternative funding if there are significant shortfalls in earned income.



- Forestry Commission Scotland's reliance on Shared Services for many of its Human Resources, Information Services and Finance requirements. The governance and funding of these services, and their links to country based back office functions, is under review to ensure that they can meet the needs of their customers through an annual review process.
- The Forestry Commission has found it difficult to meet the timetable for the introduction of International Financial Reporting Standards (IFRS). Despite engaging external accountancy expertise during the year, there were a significant number of matters outstanding at both the Treasury and Scottish Government's trigger points for 2008-09. Meeting the trigger points for 2009-10, including the completion of all outstanding matters, is going to be challenging. The work will be planned and monitored closely during 2009-10 to ensure full compliance by the due dates.

The Head of Internal Audit has prepared an annual report and assurance statement to me as 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 has received a similar report and assurance statement including any comments specific to the Forestry Commission's Great Britain core responsibilities. The overall opinion is that internal control within 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  
Accountable Officer  
1 July 2009

## **INDEPENDENT AUDITOR'S REPORT TO FORESTRY COMMISSION SCOTLAND, THE AUDITOR GENERAL FOR SCOTLAND AND THE SCOTTISH PARLIAMENT**

I have audited the financial statements of Forestry Commission Scotland for the year ended 31 March 2009 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 Net Operating Costs by Departmental Strategic 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, 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 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; and
- 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 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 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. My 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 most appropriate to 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.

## **Opinions**

### *Financial statements*

In my opinion

- the financial statements give a true and fair view, in accordance with the Public Finance and Accountability (Scotland) Act 2000 and the directions made thereunder by the Scottish Ministers, of the state of affairs of the Forestry Commission Scotland as at 31 March 2009 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; and
- information which comprises 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 purpose of meeting the expenditure shown in the financial statements were applied in accordance with section 65 of the Scotland Act 1998.

Signature

Lorna Meahan BAcc CA  
Assistant Director  
Audit Scotland  
7<sup>th</sup> Floor  
Plaza Tower  
East Kilbride  
G74 1LW

Date: 7 July 2009

# STATEMENT OF PARLIAMENTARY SUPPLY

## SUMMARY OF RESOURCE OUTTURN 2008-09

		2008-09			2007-08				
		Estimate		Outturn			Net total outturn compared with Estimate: saving/ (excess) £000	Outturn	
Note		Gross Expenditure £000	A-in-A £000	Total £000	Gross expenditure £000	A-in-A £000			Net Total £000
	Request for resources	89,335	-	89,335	89,188	-	89,188	147	96,199
	Total resources	89,335	-	89,335	89,188	-	89,188	147	96,199
	Non-operating cost A in A	-	-	-	-	-	-	-	-

## NET CASH REQUIREMENT 2008-09

		2008-09		2007-08	
		Estimate	Outturn	Net total outturn compared with Estimate: saving/ (excess) £000	Outturn
Note		£000	£000	£000	£000
	Net cash requirement	70,735	47,961	22,774	71,247

The £70,735K estimate comprises the total funding voted from the Scottish Government of £72,535K cash authorisation, less £1,800K non-cash depreciation which was included within the FE subsidy. Of this estimate, Forestry Commission Scotland drew down £62,500K during the year. The net outturn saving compared with funding drawn down was £14,539K.

## SUMMARY OF INCOME PAYABLE TO THE CONSOLIDATED FUND

		Forecast 2008-09		Outturn 2008-09	
		Income	Receipts	Income	Receipts
Note		£000	£000	£000	£000
	Total	-	-	-	-

The notes on pages 42 to 62 form part of these accounts.

## OPERATING COST STATEMENT

For the year ended 31 March 2009

	Note	Staff Costs £000	Other Costs £000	2008-09 Income £000	2007-08 £000
<b>Administration Costs:</b>					
Staff Costs	3	5,651			4,985
Other Administration costs	4		3,767		4,558
Operating Income	6			(235)	(94)
<b>Programme Costs:</b>					
Programme costs	5		82,423		87,341
EU income	6			(2,255)	(4,058)
Other income	6			(3,850)	(2,176)
<b>Totals</b>		<u>5,651</u>	<u>86,190</u>	<u>(6,340)</u>	<u>90,556</u>
<b>Net operating Cost</b>	2			<u><u>85,501</u></u>	<u><u>90,556</u></u>

All income and expenditure are derived from continuing operations.

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## STATEMENT OF RECOGNISED GAINS AND LOSSES

For the year ended 31 March 2009

	Note	2008-09 £000	2007-08 £000
Net gain on revaluation of tangible fixed assets	16	157,034	188,561
Movement on the donated asset reserve	17	41	-
<b>Recognised gains and losses for the financial year</b>		<u><u>157,075</u></u>	<u><u>188,561</u></u>

The notes on pages 42 to 62 form part of these accounts.

## BALANCE SHEET

as at 31 March 2009

	Note	<u>£000</u>	<u>2008-09 £000</u>	<u>2007-08 £000</u>
Fixed assets:				
Tangible assets	8		917,912	759,051
Intangible fixed assets	9		-	167
Debtors falling due after more than one year	11		18	25
Current assets:				
Stocks	10	15		19
Debtors	11	1,688		1,898
Cash at bank and in hand	12	<u>14,539</u>		<u>3,402</u>
			16,242	5,319
Creditors (amounts falling due within one year)	13		(17,930)	(4,599)
<b>Net current assets (liabilities)</b>			<u><b>(1,688)</b></u>	<u><b>720</b></u>
<b>Total assets less current liabilities</b>			<u><b>916,242</b></u>	<u><b>759,963</b></u>
Creditors (amounts falling due after more than one year)	13		(340)	(355)
Provisions for liabilities and charges	14		(13)	(31)
			<u><b>915,889</b></u>	<u><b>759,577</b></u>
<b>Taxpayers' equity:</b>				
General fund	15		376,185	376,940
Revaluation reserve	16		539,671	382,637
Donated asset reserve	17		33	-
			<u><b>915,889</b></u>	<u><b>759,577</b></u>

R McIntosh  
Accountable Officer  
1 July 2009

The notes on pages 42 to 62 form part of these accounts.

## CASH FLOW STATEMENT

For the year ended 31 March 2009

	Note	<u>2008-09</u> <u>£000</u>	<u>2007-08</u> <u>£000</u>
Net cash outflow from operating activities	18(a)	(49,462)	(72,263)
Capital expenditure and financial investment	18(b)	1,459	1,016
Payments of amount due to Scottish Consolidated Fund		(3,402)	(1,366)
Financing	18(d)	62,542	74,649
<b>Increase/(decrease) in cash in the period</b>	18(e)	<u>11,137</u>	<u>2,036</u>

The notes on pages 42 to 62 form part of these accounts.



## STATEMENT OF NET OPERATING COSTS BY DEPARTMENTAL STRATEGIC OBJECTIVES

for the year ended 31 March 2009

	Gross £000	Income £000	2008-09 Net £000	Gross £000	Income £000	2007-08 Net £000
<b>Objectives</b>						
Improved health and well-being of people and their communities	26,378	(1,613)	24,765	30,575	(1,961)	28,614
Competitive and innovative businesses contributing to the growth of the Scottish economy	29,736	(2,131)	27,605	32,910	(1,266)	31,644
High quality, robust and adaptable environment	35,727	(2,596)	33,131	33,399	(3,101)	30,298
<b>Net operating costs</b>	<b>91,841</b>	<b>(6,340)</b>	<b>85,501</b>	<b>96,884</b>	<b>(6,328)</b>	<b>90,556</b>

See note 19 for an explanation of apportionment across objectives.

The notes on pages 42 to 62 form part of these accounts.

# NOTES TO THE FORESTRY COMMISSION SCOTLAND RESOURCE ACCOUNTS

## NOTE 1 STATEMENT OF ACCOUNTING POLICIES

These financial statements have been prepared in accordance with the 2008-09 *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 which 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.

Until 31 March 2008, notional cost of capital was calculated as 3.5% 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. From 1 April 2008, tangible fixed assets are revalued on 1 April using opening balances. As permitted by the *FReM* in this circumstance, the notional cost of capital is now based on 3.5% of total assets less liabilities using opening fixed asset values adjusted for additions, disposals, impairments and depreciation charges in year.

### 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.

Until 31 March 2008, tangible fixed assets were revalued annually as at 31 March. With the agreement of HM Treasury future revaluations shall be carried out on 1 April. Valuations shall use prospective indices that look ahead to the next balance sheet date and shall also be adjusted to reflect the differences between the actual changes in prices in the prior year and the earlier prediction.

### Forest Estate, Land and 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 RICS guidance. Internal valuations are subject to review by external professional valuers. Indices provided by the District Valuer are used to restate values between full valuations. A full valuation took place on 1 April 2008. The normal threshold for capitalisation of buildings is £10,000.

### 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 paragraph. 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 £2,000.

### 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:

Buildings		20 to 60 years
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 Operating Income**

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

### **1.10 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 the Treasury discount rate of 3.5%. 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.

### **1.11 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.

### **1.12 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.

### **1.13 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.

### **1.14 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.

## **1.15 Financial Assets**

### Classification

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

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

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

#### (b) Loans and receivables

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

#### (c) Available-for-sale financial assets

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

### Recognition and measurement

Financial assets are recognised when Forestry Commission Scotland becomes party to the contractual provisions of the financial instrument.

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

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

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

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

#### (b) Loans and receivables

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

cost statement. When a loan or receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited in the operating cost statement.

#### (c) Available-for-sale financial assets

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

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

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

### **1.16 Cash and cash equivalents**

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

### **1.17 Financial Liabilities**

#### Classification

Forestry Commission Scotland classifies its financial liabilities in the following categories: at fair value through profit or loss, and other financial liabilities. The classification depends on the purpose for which the financial liabilities were issued. Management determines the classification of its financial liabilities at initial recognition.

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

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

#### (b) Other financial liabilities

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

#### Recognition and measurement

Financial liabilities are recognised when the Forestry Commission Scotland becomes party to the contractual provisions of the financial instrument.

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

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

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

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

(b) Other financial liabilities

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

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## NOTE 2 RECONCILIATION OF RESOURCES TO CASH REQUIREMENT

		Estimate	Outturn	2008-09 Net total outturn compared with Estimate: saving/(excess)
	Note	£000	£000	£000
Total operating resources		86,150	85,501	649
Capital:				
• Acquisition of fixed assets	8/9*	15,185	13,553	1,632
• Proceeds of fixed asset disposals	*	(12,000)	(13,158)	1,158
• Less gain/loss on disposal of fixed assets		-	3,292	(3,292)
<b>Total operating and capital resources</b>		<b>89,335</b>	<b>89,188</b>	<b>147</b>
Donations towards capital expenditure	17	-	(42)	42
Accruals adjustments:				
• Non-cash items		(15,100)	(32,235)	17,135
• Changes in working capital other than cash	18(a)	-	(2,417)	2,417
• Changes in creditors falling due after more than one year	18(b)	-	15	(15)
• Use of provision	14	-	20	(20)
Other adjustments:				
• Adjustment of FE net deficit to financing	5	(3,500)	(6,541)	3,041
• Timing between accrual and cash VAT	15	-	(25)	25
• Non cash inter country transfers	15	-	(2)	2
<b>Net cash requirement</b>		<b>70,735</b>	<b>47,961</b>	<b>22,774</b>

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

Explanation of variances can be found in the financial review on page 22.

### NOTE 3 STAFF NUMBERS AND RELATED COSTS

Staff costs comprise:

	2008-09			2007-08
	Total	Permanently Employed staff	Others	Total
Wages and salaries	4,463	4,463	-	3,927
Social security costs	339	339	-	305
Other pension costs	849	849	-	753
Inward secondments	-	-	-	-
<b>Total net costs</b>	<b>5,651</b>	<b>5,651</b>	<b>-</b>	<b>4,985</b>

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 (<http://beta.civilservice.gov.uk/pensions>).

For 2008-09, employers' contributions of £849,000 were payable to the PCSPS (2007-08 £753,000) at one of four rates in the range 17.1% and 25.5% of pensionable pay, based on salary bands (the rates in 2007-08 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 2008-09 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 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.

1 individual retired early on ill health grounds; the additional accrued pension liabilities in the year amounted to £2,612.

#### 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.

	2008-09			2007-08
	Total Number	Permanent staff Number	Others Number	Number
<b>Objective</b>				
Improved health and well-being of people and their communities	42	40	2	40
Competitive and innovative businesses contributing to the growth of the Scottish economy	47	45	2	45
High quality, robust and adaptable environment	56	54	2	42
<b>Total</b>	<b>145</b>	<b>139</b>	<b>6</b>	<b>127</b>



## NOTE 4 OTHER ADMINISTRATION COSTS

	<u>2008-09</u> £000	<u>2007-08</u> £000
Shared central services	1,907	2,170
Other administration expenditure	1,638	2,183
<b><u>Non cash costs</u></b>		
Cost of capital	43	48
Depreciation	132	94
Notional audit fees – audit work	42	38
Notional audit fees – non-audit work	-	-
Fixed asset write-off	-	-
Provisions provided in year	1	1
Provisions not required written back	-	-
Unwinding of discount	1	1
Impairment	2	23
<b>Sub-total</b>	<b>221</b>	<b>205</b>
<b>Non-staff administration costs</b>	<b>3,766</b>	<b>4,558</b>

Administration expenditure includes operating lease rentals on buildings totalling £160,521,000.

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

- Finance and accounting services
- Information services
- Human resources, including Learning and Development
- Communications
- Operational support services
- Internal audit
- Business sustainability

For each of the major 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.

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## NOTE 5 PROGRAMME COSTS

	<u>2008-09</u> £000	<u>2007-08</u> £000
Support for forestry and the rural economy, including grants paid to private woodland owners	9,308	22,632
Grants paid to private woodland owners from EU receipts	2,255	3,973
Forestry Development Programmes	7,019	6,483
Other programme costs	306	173
<b><u>Non cash costs</u></b>		
Cost of capital	32,013	23,241
<b>Sub total</b>	<b>50,901</b>	<b>56,502</b>
Forest Enterprise Scotland Funding	31,522	30,839
<b>Programme Expenditure</b>	<b>82,423</b>	<b>87,341</b>

## 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 £31,522,000 (2007-08 £30,839,000). After adjusting for capital and non-cash transactions of £4,673,000 (2007-08 £4,219,000), Forest Enterprise received cash funding of £26,849,000 (2007-08 £35,058,000). 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 £6,541,000 (2007-08 £2,417,000).

	<b>2008-09</b>	<b>2007-08</b>
	£000	£000
<b>Capital</b>		
Net capital	(1,868)	(6,636)
<b>Accruals adjustments</b>		
Cost of capital	1,625	1,713
Non cash items	2,953	2,208
Changes in working capital, including cash	440	(2,340)
Government grant towards capital expenditure	320	51
Increase/(decrease) in provisions	1,203	785
<b>Total cash adjustments</b>	<b>4,673</b>	<b>(4,219)</b>
Adjust supply expenditure for net capital	1,868	6,636
<b>Adjustment of FE deficit to financing (Note 2)</b>	<b>6,541</b>	<b>2,417</b>

## NOTE 6 INCOME

	<b>2008-09</b>	<b>2007-08</b>
	£000	£000
Operating income	235	94
<b>Administrative Income</b>	<b>235</b>	<b>94</b>
Planting grant co-financing from EU	2,255	3,973
EU funding on partnership projects	-	85
Gain on sale of estate land – non-cash	3,072	1,095
Other Income	778	1,081
<b>Programme income</b>	<b>6,105</b>	<b>6,234</b>
<b>Total</b>	<b>6,340</b>	<b>6,328</b>

## NOTE 7 ANALYSIS OF NET OPERATING COST BY SPENDING BODY

	Estimate £000	2008-09 Outturn £000	2007-08 Outturn £000
Forestry Commission Scotland	86,150	85,501	90,556
<b>Net Operating Cost</b>	<b>86,150</b>	<b>85,501</b>	<b>90,556</b>

## NOTE 8 TANGIBLE FIXED ASSETS

	Forest Estate £000	Land £000	Buildings £000	IT £000	Assets under construction £000	Total £000
<b>Cost or valuation:</b>						
At 1 April 2008	700,495	57,914	356	653	15	759,433
Additions	2,434	5,581	2,706	77	-	10,798
Transfers	-	6	-	(46)	(6)	(46)
Disposals	(8,126)	(691)	-	(13)	-	(8,830)
Write-off	-	-	-	-	(9)	(9)
Revaluation	133,424	23,611	(1)	-	-	157,034
Impairment	-	-	-	(4)	-	(4)
<b>At 31 March 2009</b>	<b>828,227</b>	<b>86,421</b>	<b>3,061</b>	<b>667</b>	<b>-</b>	<b>918,376</b>
<b>Depreciation:</b>						
At 1 April 2008	-	-	-	382	-	382
Provided during year	-	-	47	83	-	130
Transfers	-	-	-	(34)	-	(34)
Disposals	-	-	-	(12)	-	(12)
Write-off	-	-	-	-	-	-
Revaluation	-	-	-	-	-	-
Impairment	-	-	-	(2)	-	(2)
<b>At 31 March 2009</b>	<b>-</b>	<b>-</b>	<b>47</b>	<b>417</b>	<b>-</b>	<b>464</b>
<b>Net Book Value at:</b>						
<b>31 March 2009</b>	<b>828,227</b>	<b>86,421</b>	<b>3,014</b>	<b>250</b>	<b>-</b>	<b>917,912</b>
<b>1 April 2008</b>	<b>700,495</b>	<b>57,914</b>	<b>356</b>	<b>271</b>	<b>15</b>	<b>759,051</b>

Bidwells Chartered Surveyors revalued the forest estate at £842,914,563 as at 1 April 2008. The valuation was based on a sample number of properties and the results extrapolated by staff employed by the Forestry Commission. Values are determined using the Existing Use Value basis. The next full professional revaluation is due as at 1 April 2013. For 2008-09, valuations were updated using indexation information provided by Bidwells Chartered Surveyors.

As at 1 April 2008, non-forest land was valued at £68,821,197 and dwellings and other buildings at £356,000 by L H Tyson, FRICS who is Head of Estates. This was on the basis of Open market Value, Existing Use Value, Depreciated Replacement Cost Value or discounted cash flows as appropriate under RICS guidance. The next full professional revaluation is due as at 1 April 2013. For 2008-09, valuations were updated using indices provided by the District Valuer and valuations provided by Country Land Agent.

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

As at 31 March 2009 management had taken the decision that 178 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 £33,482,000. These values have been determined using an Open Market Valuation basis by internal, professionally qualified staff. Prior to revaluation the net book values were £22,928,000.

Information Technology (IT) was restated to a current value of £250,000 as at 31 March 2009 using an index provided by the Office for National Statistics.

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## NOTE 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 of in April 2008 for £366,000.

	<b>2008-09</b> £000	<b>2007-08</b> £000
<b>Valuation:</b>		
At 1 April	223	223
Additions	-	-
Disposals	(223)	-
Revaluation	-	-
<b>At 31 March</b>	<b>-</b>	<b>223</b>
<b>Amortisation:</b>		
At 1 April	56	35
Provided during year	2	21
Disposals	(58)	-
Revaluation	-	-
<b>At 31 March</b>	<b>-</b>	<b>56</b>
<b>Net book value at 31 March</b>	<b>-</b>	<b>167</b>

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## NOTE 10 STOCK

	<b>2008-09</b> £000	<b>2007-08</b> £000
Stock of publications	15	19
<b>Total</b>	<b>15</b>	<b>19</b>

## NOTE 11 Debtors

### 11(a) Analysis by type

	2008-09 £000	2007-08 £000
<b>Amounts falling due within one year:</b>		
Trade debtors	1,367	672
Other debtors	-	1
House purchase loans to employees	3	6
EU funding accrued income	226	1,140
Prepayments and accrued income	92	79
<b>Total</b>	<b>1,688</b>	<b>1,898</b>
	2008-09 £000	2007-08 £000
<b>Amounts falling due after more than one year:</b>		
House purchase loans to employees	18	25
<b>Total</b>	<b>18</b>	<b>25</b>

Forestry Commission Scotland had house purchase loans totalling £21,000 outstanding at 31 March 2009 relating to 2 employees.

### 11(b) Intra-Government Balances

	Amounts falling due within one year		Amounts falling due after more than one year	
	2008-09	2007-08	2008-09	2007-08
	£000	£000	£000	£000
Balances with other central government bodies	35	1,151	-	-
Balances with local authorities	4	-	-	-
Balances with NHS Trusts	-	-	-	-
Balances with public corporations and trading funds	-	-	-	-
<b>Intra-government balances</b>	<b>39</b>	<b>1,151</b>	<b>-</b>	<b>-</b>
Balances with bodies external to government	1,649	747	18	25
<b>Total debtors at 31 March</b>	<b>1,688</b>	<b>1,898</b>	<b>18</b>	<b>25</b>

## NOTE 12 CASH AT BANK AND IN HAND

	2008-09 £000	2007-08 £000
Balance at 1 April	3,402	1,366
Net change in cash balances	11,137	2,036
<b>Balance at 31 March</b>	<b>14,539</b>	<b>3,402</b>
<b>The following balances at 31 March are held at:</b>		
Balance with Office of Paymaster General	14,539	3,402
Cash at commercial banks and cash in hand	-	-
<b>Balance at 31 March</b>	<b>14,539</b>	<b>3,402</b>
Amounts issued from the Scottish Government for supply but not spent at period end	14,539	3,402

## NOTE 13 CREDITORS

### 13(a) Analysis by type

	2008-09 £000	2007-08 £000
<b>Amounts falling due within one year</b>		
Trade creditors	1,727	939
Other creditors	1	1
Accruals and deferred income	1,663	219
Current part of finance leases	-	38
Amounts issued from the Scottish consolidated fund (supply) but not spent at 31 March	14,539	3,402
<b>Total</b>	<b>17,930</b>	<b>4,599</b>
	2008-09 £000	2007-08 £000
<b>Amounts falling due after more than one year</b>		
Finance leases	340	355
<b>Total</b>	<b>340</b>	<b>355</b>

### 13(b) Intra-Government Balances

	Amounts falling due within one year		Amounts falling due after more than one year	
	2008-09 £000	2007-08 £000	2008-09 £000	2007-08 £000
Balances with other central government bodies	15,966	3,402	-	-
Balances with local authorities	-	170	-	-
Balances with NHS Trusts	-	-	-	-
Balances with public corporations and trading funds	-	-	-	-
<b>Intra-government balances</b>	<b>15,966</b>	<b>3,572</b>	<b>-</b>	<b>-</b>
Balances with bodies external to government	1,964	1,027	340	355
<b>Total creditors at 31 March</b>	<b>17,930</b>	<b>4,599</b>	<b>340</b>	<b>355</b>

## NOTE 14. PROVISIONS FOR LIABILITIES AND CHARGES

	Early departure costs £000
Balance at 1 April 2008	31
Provided in the year	1
Provisions not required written back	-
Utilised in the year	(20)
Unwinding of discount	1
<b>Balance at 31 March 2009</b>	<b>13</b>

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.

## NOTE 15 GENERAL FUND

	2008-09 £000	2007-08 £000
Balance at 1 April	376,940	377,157
Net operating cost for the year	(85,501)	(90,556)
Net Parliamentary funding	62,500	74,649
Forest Enterprise Scotland capital and non-cash adjustments (note 5)	4,673	(4,219)
Notional cost of capital	32,056	23,289
Transfer of fixed assets from/to other forestry bodies	(13)	(1)
Timing between accrual and cash VAT	25	(14)
Non-cash inter-country transfers	2	(1)
Notional audit fees	42	38
Amounts issued from the Scottish Consolidated Fund for supply but not spent at period end	(14,539)	(3,402)
<b>Balance at 31 March</b>	<b>376,185</b>	<b>376,940</b>

## NOTE 16 REVALUATION RESERVE

	2008-09 £000	2007-08 £000
Balance at 1 April	382,637	194,076
Arising on revaluation during the year:		
Forest estate	133,424	176,704
Land	23,611	11,857
Buildings	(1)	-
	157,034	188,561
<b>Balance at 31 March</b>	<b>539,671</b>	<b>382,637</b>

## NOTE 17 DONATED ASSET RESERVE

	2008-09 £000	2007-08 £000
Balance at 1 April	-	-
Additions during the year	42	-
Revaluation	(1)	-
Release to the OCS	(8)	-
<b>Balance at 31 March</b>	<b>33</b>	<b>-</b>

## NOTE 18 NOTES TO THE CASH FLOW STATEMENT

### 18(a) Reconciliation of operating cost to operating cash flows

	2008-09 £000	2007-08 £000
<b>Net operating cost</b>	<b>(85,501)</b>	<b>(90,556)</b>
Adjustments for non-cash transactions	28,943	22,351
Forest Enterprise Scotland capital and non-cash adjustments	4,673	(4,219)
Timing between accrual and cash VAT	25	(14)
Non-cash inter-country transfers	2	(1)
(Increase)/decrease in stocks	4	(19)
(Increase)/decrease in debtors	218	(521)
Increase/(decrease) in creditors	13,331	2,770
less movements in creditors relating to items not passing through OCS	(11,137)	(2,036)
Use of provisions	(20)	(18)
<b>Net cash outflow from operating activities</b>	<b>(49,462)</b>	<b>(72,263)</b>

### 18(b) Analysis of capital expenditure and financial investment

	2008-09 £000	2007-08 £000
Tangible fixed asset additions	(10,798)	(6,647)
Intangible fixed asset additions	-	-
Proceeds of disposal of fixed assets	12,272	7,640
Creditors falling due after more than one year	(15)	23
Loans to other bodies	-	-
Repayment of loans to other bodies	-	-
<b>Net cash inflow/(outflow) from investing activities</b>	<b>1,459</b>	<b>1,016</b>

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

	Capital expenditure £000
Request for resources	(10,798)
Net movement in debtors/creditors	-
<b>Total 2008-09</b>	<b>(10,798)</b>
<b>Total 2007-08</b>	<b>(6,647)</b>



## 18(d) Analysis of financing

	Note	2008-09 £000	2007-08 £000
From the Scottish Consolidated Fund	15	62,500	74,649
Donations towards capital expenditure	17	42	-
<b>Net financing</b>		<b>62,542</b>	<b>74,649</b>

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

	Note	2008-09 £000	2007-08 £000
Net cash requirement		(47,961)	(71,247)
Payment of amount due to Scottish Consolidated Fund		(3,402)	(1,366)
Net financing from the Scottish Consolidated Fund	18(d)	62,500	74,649
<b>Increase/(decrease) in cash</b>		<b>11,137</b>	<b>2,036</b>

## NOTE 19 NOTES TO THE STATEMENT OF NET OPERATING COSTS BY DEPARTMENTAL STRATEGIC 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. During 2008-09 we implemented a system to allocate project costs directly to objectives and this data has been used to support the costs attributable to each of the objectives for Forestry Commission Scotland.

### Capital employed by Departmental Aim and Objectives at 31 March 2009

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.

	2008-09 £000	2007-08 £000
Improve health and well-being of people and their communities	265,283	240,009
Competitive and innovative businesses contributing to the growth of the Scottish economy	295,699	265,434
High quality, robust and adaptable environment	354,907	254,134
<b>Total</b>	<b>915,889</b>	<b>759,577</b>

## NOTE 20. CAPITAL COMMITMENTS

There were no contracted capital commitments at 31 March 2009 (£nil at 31 March 2008).

## NOTE 21 COMMITMENTS UNDER LEASES

### 21(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.

	<b>2008-09</b> £000	<b>2007-08</b> £000
Obligations under operating leases comprise:		
Buildings:		
Expiry within 1 year	50	-
Expiry after 1 year but not more than 5 years	20	70
Expiry thereafter	91	91
<b>Total</b>	<b>161</b>	<b>161</b>

### 21(b) Finance Leases

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

	<b>2008-09</b> £000	<b>2007-08</b> £000
Rentals due in one year or less	-	38
Rentals due in more than one year but not more than two years	5	36
Rentals due in more than two years but not more than five years	4	100
Rentals due in more than five years	331	214
<b>Total</b>	<b>340</b>	<b>388</b>

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## NOTE 22 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 2009, the Forestry Commission was committed under signed plans to the payment of future instalments of planting and replanting grants amounting to £22.4 million (£32.8 million in 2007-08). 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 £8.0 million at 31 March 2009 (£10.4 million in 2007-08).

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## NOTE 23 CONTINGENT LIABILITIES DISCLOSED UNDER FRS 12

There were £nil contingent liabilities at 31 March 2009 for damages caused to other persons' property or for compensation for personal injury to employees (£nil as at 31 March 2008).

There were no other contingent liabilities.

## **NOTE 24 POST BALANCE SHEET EVENTS**

These financial statements were authorised for issue on 7 July 2009 by the Accountable Officer.

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## **NOTE 25 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 2008-09.

Simon Pepper, a non-executive member of the National Committee for Scotland, entered into a Scottish Scotland Forestry Grant Scheme contract. Payments of £662 were made to him during the year. There were no further payments due at 31 March 2009.

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 £972,616. A further £5,621 was owing to the Central Forest Trust at 31 March 2009.

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## **NOTE 26 STATEMENT OF LOSSES AND SPECIAL PAYMENTS**

Losses totalled £123,720 from 24 cases (£44,680 in 2007-08)

Special payments totalled £1,605 from 2 cases (£2,000 in 2007-08).

## NOTE 27 FINANCIAL INSTRUMENTS

### 27.1 Financial Instruments by Category

	2008-09			2007-08		
	Loans and Receivables	Available-for-Sale	Total	Loans and Receivables	Available-for-Sale	Total
	£000	£000	£000	£000	£000	£000
<b>Assets as per the Balance Sheet</b>						
Available-for-sale financial assets	-	-	-	-	-	-
Derivative financial instruments	-	-	-	-	-	-
Trade and other receivables	1,614	-	1,614	1,844	-	1,844
Financial assets at fair value through profit and loss	-	-	-	-	-	-
Cash and cash equivalents	14,539	-	14,539	3,402	-	3,402
<b>Total</b>	<b>16,153</b>	<b>-</b>	<b>16,153</b>	<b>5,246</b>	<b>-</b>	<b>5,246</b>

	2008-09			2007-08		
	Liabilities at fair value through the profit and loss	Other financial liabilities	Total	Liabilities at fair value through the profit and loss	Other financial liabilities	Total
	£000	£000	£000	£000	£000	£000
<b>Liabilities as per the Balance Sheet</b>						
Borrowings (excluding finance lease liabilities)	-	-	-	-	-	-
Finance lease liabilities	-	340	340	-	393	393
Derivative financial instruments	-	-	-	-	-	-
Trade and other payables excluding statutory liabilities	-	3,294	3,294	-	1,110	1,110
<b>Total</b>	<b>-</b>	<b>3,634</b>	<b>3,634</b>	<b>-</b>	<b>1,503</b>	<b>1,503</b>

### 27.2 Exposure to Risk

Forestry Commission Scotland's activities expose it to a variety of financial risks.

Credit risk – the possibility that other parties might fail to pay amounts due;

Liquidity risk – the possibility that the Forestry Commission Scotland might not have funds available to meet its commitments to make payments; and

Market risk – the possibility that financial loss might arise as a result of changes in such measures as interest rates and stock market movements.

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

#### a) Credit Risk

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

Forestry Commission Scotland's exposure to credit risk is limited to the risk of non-payment by customers, as no deposits are held with commercial banks.

Customers are assessed, taking into account their financial position, past experience and other factors, with individual credit limits being set in accordance with parameters set by Forestry Commission Scotland. The utilisation of credit limits is regularly monitored.

Forestry Commission Scotland monitors overdue payments from customers on an individual basis. At 31 March 2009, Forestry Commission Scotland made provision against one debt of £5,000 analysed as follows:-

	<b>2008-09</b>
	<b>£000</b>
Advanced legal proceedings underway	5
<b>Total</b>	<b>5</b>

£1,276,000 of the £1,367,000 trade debtor balance is past its due date for payment. The past due amount can be analysed by age as follows:

	<b>2008-09</b>
	<b>£000</b>
Less than one month	55
One to two months	35
Two to three months	-
More than three months	1,186
<b>Total</b>	<b>1,276</b>

#### b) Liquidity Risk

Each financial year, the Scottish Government 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.

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

	<b>Less than 1</b>	<b>Between 1 and 2</b>	<b>Between 2 and 5</b>	<b>Over 5 years</b>
	<b>year</b>	<b>years</b>	<b>years</b>	<b>years</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>At 31 March 2009</b>				
Borrowings (excluding finance lease liabilities)	-	-	-	-
Finance lease liabilities	-	5	4	331
Derivative financial instruments	-	-	-	-
Trade and other payables excluding statutory liabilities	3,294	-	-	-
	<b>3,294</b>	<b>5</b>	<b>4</b>	<b>331</b>

	<b>Less than 1</b>	<b>Between 1 and 2</b>	<b>Between 2 and 5</b>	<b>Over 5 years</b>
	<b>year</b>	<b>years</b>	<b>years</b>	<b>years</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>At 31 March 2008</b>				
Borrowings (excluding finance lease liabilities)	-	-	-	-
Finance lease liabilities	38	36	100	214
Derivative financial instruments	-	-	-	-
Trade and other payables excluding statutory liabilities	1,110	-	-	-
	<b>1,148</b>	<b>36</b>	<b>100</b>	<b>214</b>

### c) Market Risk

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

#### (i) Cash flow and fair value interest rate risk

Forestry Commission Scotland has no significant interest bearing assets or liabilities and as such income and expenditure cashflows are substantially independent of market interest rates.

#### (ii) Foreign Currency Risk

Forestry Commission Scotland does not generally undertake transactions in foreign currency, therefore its exposure to foreign currency risk is minimal.

### **27.3 Capital risk management**

Forestry Commission Scotland has no powers to borrow or invest surplus funds.

### **27.4 Fair Value Estimation**

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

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## **NOTE 28 ENTITIES WITHIN THE DEPARTMENTAL BOUNDARY**

The entities within the boundary during the nine months to 31 March 2009 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 (FReM) 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.

A handwritten signature in blue ink, appearing to read 'Alison Staffin', is written over a faint circular stamp.

Signed by the authority of the Scottish Ministers

Dated 17 January 2006



# **Forest Enterprise Scotland**

## **Annual Accounts 2008-09**



## 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

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

Forestry Enterprise Scotland incurred a deficit on its Income and Expenditure Account, before cost of capital, of £29.9 million (2007-08: £29.1m)

The operating deficit fell by £0.4 million as described below:

- The income from sales of timber was £37.3 million which was a reduction of £4.8 million on 2007-08. The downturn in the UK economy resulted in both a reduction in demand and price for timber.
- Deer management and other forest maintenance income of £1.2 million was £0.3 million higher than 2007-08 mainly due to an increase in venison sale prices. This was driven by a reduction in venison imports from New Zealand.
- The income from the management of the estate of £11.9 million was a significant increase of £5.8 million over 2007-08. Additional income was received from coal royalties, contributions towards the upgrade of the Glenmore Sewerage system which will allow adoption by Scottish Water, windfarm development projects at Arecleoch in South Ayrshire and Beinn an Tuirc in Argyll, other estate developments and income from the Strategic Timber Transport Fund towards the road project at Barrhill.
- The overall cost of harvesting and marketing at £20.2 million was £1 million less than in 2007-08. There were savings in costs due to lower contract prices and a reduction in programme. Increases in fuel costs early in the year were more than offset by the cost savings.
- Expenditure on forest roads at £12.3 million was £0.8 million higher than in 2007-08. The main reason for this was the construction of a major Strategic Timber Transport Fund road project at Barrhill in South Ayrshire.
- Deer management and other forest protection and maintenance costs were £18.2 million which was £0.8 million less than in 2007-08. This resulted from management action to reduce deer management costs. Expenditure on maintenance operations was also reduced but the restocking programme was lower than 2007 –08 although expenditure was similar.
- Expenditure on management and development of the estate at £5.7 million was an increase of £1.5 million on 2007-08. The increase arose from one major project, the Glenmore Sewerage system in the Cairngorm National Park which was upgraded during the year. This project will be completed during 2009 –10 when the plant will be adopted by Scottish Water (see income comment above).

The net cost of recreation, conservation and heritage was £17 million which was a small increase of £0.3 million on 2007-08.

Building assets were revalued downwards by £4.8 million following a full valuation by internal professionally qualified staff. There were no additions during the year. Buildings under construction at the year end

amounted to £2.2 million. The main project was the Glentress Peel visitor infrastructure in the Tweed Valley Forest park where enabling works were undertaken. Building construction is due to commence during 2009 – 10. There were a number of smaller recreation building projects which are approaching completion.

Purchases of forestry vehicles, machinery and equipment (VME) amounted to £0.8 million compared with net disposals of £0.2 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 £26.8 million (2007-08 £35.1 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 2009.

## **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 ground enabling works commenced during 2008-09. It is planned to tender the building contracts in late summer 2009-10. If all stays on schedule, the new development will be completed in 2010.

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 plantable land. We 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 six sites operating and construction work is underway at another 5 sites.

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](http://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. From 1 December 2008, unless otherwise stated in the contract, we aim to pay within 10 working days from the receipt of goods and services or the presentation of a valid invoice, whichever is the later (previously 30 working days).

A sample analysis indicates that:

- for the period 1 April 2008 to 30 November 2008, 98.6% of invoices were paid within the 30 working days deadline; and
- for the period 1 December 2008 to 31 March 2009, 98.1% of invoices were paid within the 10 working days deadline.

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.

## **Staff Sickness Absence**

Forest Enterprise Scotland pro-actively manages staff sickness absences with an average number of working days lost per person during 2008-09 of 6.60.

## **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  
1 July 2009

# 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, including 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](http://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 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.

The senior staff covered in this report hold appointments which 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 THE REMUNERATION REPORT

### SALARY AND PENSION ENTITLEMENTS

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

	2008-09		2007-08	
	Salary £000	Benefits in kind To nearest £100	Salary £000	Benefits in kind to nearest £100
Hugh Insley	95-100	-	90-95	-
Les Bryson	70-75	1,200	65-70	1,000
Alan Stevenson	60-65	-	55-60	-
Laurie Tyson	55-60	-	55-60	-
Moira Baptie	50-55	1,100	45-50	1,100
Alan Duncan	45-50	-	45-50	-
Stephanie Atwell	15-20 <sup>1</sup>	-	25-30	-
Nicol Sinclair	40-45	200	40-45	-
Michael Ansell	70-75	-	65-70	-

<sup>1</sup> Figure quoted is for the period 1 April to 22 October 2008. The full year equivalent is 25-30.

The salary and pension costs for Helen Paterson, HR Business Partner (Scotland) are borne and disclosed in the Forestry Commission Scotland Annual Report and Accounts 2008-09.

## 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.

## PENSION BENEFITS

	Accrued pension at pension age at 31 March 2009 and related lump sum	Real increase in pension and related lump sum at pension age	CETV at 31 March 2009	CETV at 31 March 2008*	Real increase in CETV	Employer contribution to partnership pension account
	£000	£000	£000	£000	£000	Nearest £100
Hugh Insley	40-45 plus LS of 120-125	0-2.5 plus LS of 0-2.5	965	903	6	-
Les Bryson	20-25 plus LS of 70-75	0-2.5 plus LS of 0-2.5	528	471	14	-
Laurie Tyson	15-20 plus LS of 50-55	0-2.5 plus LS of 2.5-5	334	294	14	-
Alan Stevenson	20-25 plus LS of 65-70	0-2.5 plus LS of 2.5-5	427	377	15	-
Moira Baptie	10-15 plus LS of 40-45	0-2.5 plus LS of 0-2.5	193	168	9	-
Alan Duncan	20-25 plus LS of 65-70	0-2.5 plus LS of 2.5-5	457	402	18	-
Stephanie Atwell	5-10 plus LS of 15-20	0-2.5 plus LS of 0-2.5	84	77	1	-
Nicol Sinclair	5-10 plus LS of 25-30	0-2.5 plus LS of 0-2.5	132	115	6	-
Michael Ansell	0-5 plus LS of 0-5	0-2.5 plus LS of 0-2.5	38	21	14	-

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

## CIVIL SERVICE PENSIONS

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

service. In addition, a lump sum equivalent to three years' pension is payable on retirement. For premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum. 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 2.3% 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 Civil Service pension arrangements can be found at the website <http://beta.civilservice.gov.uk/pensions>

## **CASH EQUIVALENT TRANSFER VALUES**

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies. The figures include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the Civil Service pension arrangements 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 in accordance with The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 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 taken.

## **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  
1 July 2009

## 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.

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 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 2009 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 2009 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 11 March 2009. Consolidated the risk management process by organising a group of representative senior and line managers from Forest Enterprise Scotland to review the Forestry Commission Scotland risk register prior to the Board meeting. This group considered current content, scoring, adequacy of controls and identified any omissions.
- Participated in the Forestry Commission wide, Risk Management Group (RMG), which met on 5 March 2009 to consider and ensure continued development of risk management and business continuity planning by refreshing current policy and procedures. It also provided a valuable focus group for sharing of best practice across the Forestry Commission as a whole.
- With active involvement of responsible line managers, prepared a series of eleven Business Continuity Plans (BCPs) covering the whole geographical spread of the organisation. This process built on work previously undertaken for the Forestry Commission by an independent Risk Consultant and was driven by an in-house dedicated project officer to ensure consistency of approach and a common standard across the organisation in Scotland. 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.

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 June 2008, November 2008, March 2009 and July 2009. 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.

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. During 2008-09 the ARC formally considered its effectiveness and identified and addressed perceived weaknesses around induction. It recognised that there would be some benefit in trying to ensure the induction process for non-exec National Committee and ARC members is both speedy and sufficiently detailed to maximise their contribution.

#### **4. Information Assurance and Data Handling**

The Forestry Commission has appointed its Director Finance as the Senior Information Risk Owner (SIRO). The SIRO chairs the Information Security Management Forum (ISMF) which co-ordinates and controls the implementation of information security across the Forestry Commission. It has met on nine occasions during the year. The work of the ISMF is supported on a day to day basis by the Departmental Security Officer (DSO) and the IT Security Officer (ITSO).

In determining our approach, the Forestry Commission has taken the view that, in comparison with other government departments, our information systems hold a relatively small number of records and that the volume of sensitive information requiring a protective marking is relatively low.

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

- distributed the guidance publication, *Managing Information Risk*, to Accountable Officers, Chair of the Audit Committee and Board members to assist them in understanding information risk;
- published an Information Charter setting out the standards that people can expect from us when we request or hold their personal information;
- encrypted all existing laptops that connect to the network;
- produced new guidance on marking protective documents;

- established an information asset register and undertaken detailed risk assessments;
- appointed Information Asset Owners (IAOs) for corporate systems.

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

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

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

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

## **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.

Plans to address weaknesses and major risks and to ensure continuous improvement of the business are in place. Requiring particular attention during 2009-10 are:

- Our ability to generate earned income, notably from timber sales. Any shortfall in earned income that cannot be compensated by other income would restrict our ability to deliver the Scottish Forestry Strategy. Throughout the year management will monitor out turn against budget and take the necessary actions to adjust costs and/or secure alternative funding if there are significant shortfalls in earned income.
- Forest Enterprise Scotland's reliance on Shared Services for many of its Human Resources, Information Services and Finance requirements. The governance and funding of these services, and their links to country based back office functions, is under review to ensure that they can meet the needs of their customers through an annual review process.
- The Forestry Commission has found it difficult to meet the timetable for the introduction of International Financial Reporting Standards (IFRS). Despite engaging external accountancy expertise during the year, there were a significant number of matters outstanding at both the Treasury and Scottish Government's trigger points for 2008-09. Meeting the trigger points for 2009-

10, including the completion of all outstanding matters, is going to be challenging. The work will be planned and monitored closely during 2009-10 to ensure full compliance by the due dates.

The Head of Internal Audit has prepared an annual report and assurance statement to me as 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 has received a similar report and assurance statement including any comments specific to the Forestry Commission's 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  
1 July 2009

## **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 2009 under the Forestry Act 1967. These comprise the Income and Expenditure Account, Statement of Total Recognised Gains and Losses, the Balance Sheet, the Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

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. My 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 Accountable Officer in the preparation of the financial statements, and of whether the accounting policies are most 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.

## Opinions

### *Financial statements*

In my opinion

- the financial statements give a true and fair view, in accordance with the Forestry Act 1967 and directions made thereunder by the Scottish Ministers, of the state of affairs of Forest Enterprise Scotland as at 31 March 2009 and of the net 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 the Forestry Act 1967 and directions made thereunder by the Scottish Ministers; and
- information which comprises only the Management Commentary, Corporate Social Responsibility, Leadership and Governance and Forestry Enterprise Scotland Finances included with 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 BAcc CA  
Assistant Director  
Audit Scotland  
7<sup>th</sup> Floor  
Plaza Tower  
East Kilbride  
G74 1LW

Date: 7 July 2009

## INCOME AND EXPENDITURE ACCOUNT

for the year ended 31 March 2009

	Note	2008-09 £000	2007-08 £000
<b>Operating Income</b>			
Sales of Timber		37,265	42,074
Forest Protection and Maintenance		1,155	863
Management and Development of Estate	2		
Continuing operations		11,934	6,173
Discontinued operations		-	4
		<u>50,354</u>	<u>49,114</u>
<b>Operating Expenditure</b>			
Forest Planning		4,777	4,361
Harvesting and Haulage of Timber		20,201	21,236
Forest Roads		12,272	11,505
Forest Protection and Maintenance		18,164	18,918
Management and Development of Estate	2		
Continuing operations		5,695	4,202
		<u>61,109</u>	<u>60,222</u>
<b>Operating Deficit</b>		<u>(10,755)</u>	<u>(11,108)</u>
<b>Recreation, Conservation &amp; Heritage</b>			
Income		2,805	4,526
Expenditure		19,774	21,243
		<u>(16,969)</u>	<u>(16,717)</u>
<b>Operating Deficit Net of R,C &amp; H</b>		<u>(27,724)</u>	<u>(27,825)</u>
Deficit on sale of properties	4	(2,173)	(1,301)
<b>Deficit</b>		<u>(29,897)</u>	<u>(29,126)</u>
Notional cost of capital	5	(1,625)	(1,713)
<b>Net Deficit for the Year</b>		<u>(31,522)</u>	<u>(30,839)</u>
Transferred to General Fund		<u>(31,522)</u>	<u>(30,839)</u>

There have been no acquisitions during the year.

The notes on pages 83 to 100 form part of these accounts.

## STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

for the year ended 31 March 2009

	Note	<b>2008-09</b> <b>£000</b>	2007-08 £000
Net deficit for the year		<b>(31,522)</b>	(30,839)
Revaluation surplus for the year	14	<b>(4,451)</b>	2,999
Realised revaluation surplus	14	<b>118</b>	383
Movement on Government Grant Reserve	15	<b>320</b>	-
Total recognised gains and losses for the year		<b><u>(35,535)</u></b>	<u>(27,457)</u>

The notes on pages 83 to 100 form part of these accounts.



## BALANCE SHEET

as at 31 March 2009

		2008-09	2007-08
	Note	£000	£000
<b>Fixed assets</b>			
Tangible assets	6	32,996	38,413
Investment	7	1,833	1,833
<b>Debtors falling due after more than one year</b>	9	2,425	2,751
<b>Current assets</b>			
Stocks	8	3,589	3,334
Debtors	9	13,874	13,867
Cash at banks and in hand	10	2	7
		<u>17,465</u>	<u>17,208</u>
<b>Creditors (amounts falling due within one year)</b>	11	(5,229)	(4,996)
<b>Net current assets</b>		<u>12,236</u>	<u>12,212</u>
<b>Total assets less current liabilities</b>		<b>49,490</b>	55,209
<b>Creditors (amounts falling due after more than one year)</b>	11	(139)	-
<b>Provisions for liabilities and charges</b>	12	(2,924)	(1,722)
		<u>46,427</u>	<u>53,487</u>
<b>Capital and reserves</b>			
General fund	13	37,600	40,411
Revaluation reserve	14	8,456	13,025
Government Grant Reserve	15	371	51
		<u>46,427</u>	<u>53,487</u>

H Insley  
Chief Executive and Accountable Officer  
1 July 2009

The notes on pages 83 to 100 form part of these accounts.

## CASH FLOW STATEMENT

for the year ended 31 March 2009

	2008-09	2007-08
Note	<u>£000</u>	<u>£000</u>
Net cash outflow from operating activities	16a <b>(25,306)</b>	(28,469)
Capital expenditure	16b <b>(1,868)</b>	(6,636)
Financing	16c <b>27,169</b>	35,109
Increase/(decrease) in cash	10 <b>(5)</b>	4

The notes on pages 83 to 100 form part of these accounts.

## NOTES TO THE ACCOUNTS

### NOTE 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 2008-09 *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.

Until 31 March 2008, notional cost of capital was calculated as 3.5% of the average carrying amount of all assets less liabilities. From 1 April 2008, tangible fixed assets are revalued on 1 April using opening balances. As permitted by the *FReM* in this circumstance, the notional cost of capital is based on 3.5% of total assets less liabilities using opening fixed asset values adjusted for additions, disposals, impairments and depreciation charges in year.

#### 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.

Until 31 March 2008, tangible fixed assets were revalued annually as at 31 March. With the agreement of HM Treasury future revaluations shall be carried out on 1 April. Valuations shall use prospective indices that look ahead to the next balance sheet date and shall also be adjusted to reflect the differences between the actual changes in prices in the prior year and the earlier prediction.

## Land and 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 RICS guidance. Internal valuations are subject to review by external professional valuers. Indices provided by the District Valuer are used to restate values between full valuations. A full valuation took place on 1 April 2008. The normal threshold for capitalisation of buildings is £10,000.

## 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 £2,000.

## 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.

### **1.6 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 held for continuing use are valued at cost or, where materially different, current replacement costs, and at net realisable value only when they either cannot or will not be used.

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 the Treasury discount rate of 3.5%. 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 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 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.

## **1.13 Financial Assets**

### Classification

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

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

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

#### (b) Loans and receivables

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

### (c) Available-for-sale financial assets

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

#### Recognition and measurement

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

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

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

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

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

#### (b) Loans and receivables

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

#### (c) Available-for-sale financial assets

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

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

Forest Enterprise Scotland assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity

and recognised in the operating cost statement. Impairment losses recognised in the operating cost statement on equity instruments are not reversed through the income and expenditure account.

### **1.14 Cash and cash equivalents**

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

### **1.15 Financial Liabilities**

#### Classification

Forest Enterprise Scotland classifies its financial liabilities in the following categories: at fair value through profit or loss, and other financial liabilities. The classification depends on the purpose for which the financial liabilities were issued. Management determines the classification of its financial liabilities at initial recognition.

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

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

#### (b) Other financial liabilities

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

#### Recognition and measurement

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

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

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

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

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

#### (b) Other financial liabilities

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

## NOTE 2 OPERATING DEFICIT

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

	<b>2008-09</b> <b>£000</b>	2007-08 £000
Depreciation of fixed assets	1,977	1,849
Hire of plant and equipment	3,310	3,100
Operating lease rentals:		
Land and buildings	114	111
Other	1,687	1,433
Auditors' remuneration – audit work	63	60
Auditors' remuneration – non-audit work	-	-
Shared central services	5,297	4,607

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. Seven areas of work are identified as shared services:

- Finance and accounting services
- Information services
- Human resources, including Learning and Development
- Communications
- Operational support services
- Internal audit
- Business sustainability

For each of the major 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:

	<b>Income</b> <b>£000</b>	<b>Expenditure</b> <b>£000</b>	<b>2008-09</b> <b>Net</b> <b>£000</b>	2007-08 Net £000
<b>Continuing operations</b>				
Estate Management	9,029	4,609	4,420	2,041
Other	2,905	1,084	1,821	(59)
Impairment on OME	-	2	(2)	(11)
	<b>11,934</b>	<b>5,695</b>	<b>6,239</b>	1,971
<b>Discontinued operations</b>				
Forest Holidays	-	-	-	4
Impairment on Forest Holidays cabins	-	-	-	-
	-	-	-	4
<b>Total</b>	<b>11,934</b>	<b>5,695</b>	<b>6,239</b>	1,975

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 from the investment in the partnership. 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 909 (923 in 2007-08). In addition, the number of whole time equivalents employed as temporary \ agency staff was 2 (3 in 2007-08).

The aggregate payroll costs were as follows:

	<b>2008-09</b>	2007-08
	<b>£000</b>	£000
Salaries	<b>22,776</b>	22,318
Social Security Costs	<b>1,618</b>	1,595
Other pension costs	<b>3,965</b>	3,881
Temporary/Agency	<b>67</b>	63
	<b>28,426</b>	
Less recoveries in respect of outward secondments	<b>(30)</b>	(17)
	<b>28,396</b>	27,840

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 (<http://beta.civilservice.gov.uk/pensions>).

For 2008-09, employers' contributions of £3,965,000 were payable to the PCSPS (2007-08 £3,881,000) at one of four rates in the range 17.1% and 25.5% of pensionable pay, based on salary bands (the rates in 2007-08 were between 17.1% and 25.5%). The scheme's Actuary reviews employer contributions every four years following a full scheme valuation. The salary bands were revised from 2007-08. The rates remained the same. The contribution rates are set to meet the cost of the benefits accruing during 2008-09 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 £11,200 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.

2 individuals retired early on ill health grounds; the total additional accrued pension liabilities in the year amounted to £3,062.

## NOTE 4 SALE OF PROPERTIES

	2008-09 £000	2007-08 £000
Income	885	199
Book value	1,287	449
	<u>(402)</u>	<u>(250)</u>
Disposal costs		
External costs	(1,771)	(508)
Administration expenses	-	(543)
	<u>(1,771)</u>	<u>(1,051)</u>
Surplus/(deficit) on sale of properties	<u>(2,173)</u>	<u>(1,301)</u>

Note - Forest Enterprise Scotland manage land on behalf of Forestry Commission Scotland. Although the capital land costs appear in notes 2,8 and 9 of the FCS accounts, the disposal costs associated with the sale of land appear on the FES accounts.

## NOTE 5 NOTIONAL COST OF CAPITAL

Until 31 March 2008, notional cost of capital was based on 3.5% of average total assets less liabilities employed. From 2008/09, tangible fixed assets are revalued on 1 April using opening balances. In line with the FReM, from 1 April 2008, notional cost of capital is based on 3.5% of total assets less liabilities using opening fixed asset values adjusted for additions, disposals, impairments and depreciation charges in year.

Notional cost of capital in 2008-09 amounted to £1,625,000 (£1,713,000 in 2007-08).

## NOTE 6 TANGIBLE FIXED ASSETS

	Dwellings And Other Buildings £000	VME £000	OME £000	Assets Under Construction £000	Total £000
<b>Valuation:</b>					
At 1 April 2008	36,579	12,613	277	888	50,357
Additions	34	782	67	1,872	2,755
Transfers	343	-	45	(327)	61
Disposals	(1,390)	(2,036)	(63)	-	(3,489)
Write-off	-	-	-	(242)	(242)
Revaluation	(4,836)	736	-	-	(4,100)
Impairment	-	-	(3)	-	(3)
<b>At 31 March 2009</b>	<b>30,730</b>	<b>12,095</b>	<b>323</b>	<b>2,191</b>	<b>45,339</b>
<b>Depreciation:</b>					
At 1 April 2008	4,675	7,111	158	-	11,944
Provided during year	743	1,180	54	-	1,977
Transfers	-	-	29	-	29
Disposals	(103)	(1,793)	(61)	-	(1,957)
Revaluation	-	351	-	-	351
Impairment	-	-	(1)	-	(1)
<b>At 31 March 2009</b>	<b>5,315</b>	<b>6,849</b>	<b>179</b>	<b>-</b>	<b>12,343</b>
<b>At 31 March 2009</b>	<b>25,415</b>	<b>5,246</b>	<b>144</b>	<b>2,191</b>	<b>32,996</b>
At 1 April 2008	31,904	5,502	119	888	38,413

**Asset financing:**

Owned	25,415	5,246	144	2,191	32,996
<b>Net book value at 31 March 2009</b>	<b>25,415</b>	<b>5,246</b>	<b>144</b>	<b>2,191</b>	<b>32,996</b>

As at 1 April 2008, dwellings and other buildings were valued at £32,688,000 by L H Tyson, FRICS who is Head of Estates. This was on the basis of Open market Value, Existing Use Value, Depreciated Replacement Cost Value or discounted cash flows as appropriate under RICS guidance. The next full professional revaluation is due as at 1 April 2013. For 2008-09, valuations were updated using indices provided by the District Valuer and valuations provided by Country Land Agent.

Buildings assets comprise both freehold and leasehold assets.

Forestry vehicles, machinery and equipment (VME) was valued at £5,502,000 as at 1 April 2008. Specialist forestry machinery was valued by professionally qualified staff employed by the Forestry Commission. All other assets were valued using indices provided by the Office for National Statistics. The next full revaluation is due at 1 April 2013. In the intervening years annual updates will be carried out based on the opinions of professionally qualified staff employed by the Forestry Commission or using indices provided by the Office for National Statistics.

Office machinery and equipment (OME) was restated to a current value of £144,000 as at 31 March 2009 using an index provided by the Office for National Statistics applied to the entire asset class.

**NOTE 7 FIXED ASSET INVESTMENTS**

The fixed asset investment represents Forestry Commission Scotland's share in the limited liability partnership between the Forestry Commissioners and the Camping and Caravanning Club to operate holiday facilities within the Forestry Commission's land holdings.

The investment is valued annually at 28 February on an Open Market Basis by Barrs & Co., specialist leisure consultants and valuers.

**NOTE 8 STOCKS**

	<b>2008-09</b>	2007-08
	<b>£000</b>	£000
Timber	<b>2,180</b>	2,093
Plants and seed	<b>686</b>	657
Consumable materials, supplies and livestock	<b>723</b>	584
	<b>3,589</b>	3,334

## NOTE 9 DEBTORS

### 9(a) Analysis by type

	2008-09 £000	2007-08 £000
<b>Amounts falling due within one year:</b>		
Trade debtors	10,256	8,327
Other debtors	1	-
House purchase loans to employees	24	14
Partnership lease	407	97
Prepayments and accrued income	3,186	5,429
	<u>13,874</u>	<u>13,867</u>
<b>Amounts falling due after more than one year:</b>		
Partnership loan	1,150	1,150
Partnership lease	1,121	1,400
House purchase loans to employees	154	201
	<u>2,425</u>	<u>2,751</u>
	<u>16,299</u>	<u>16,618</u>

Forest Enterprise Scotland had house purchase loans totalling £178,000 outstanding at 31 March 2009 relating to 17 employees.

### 9(b) Intra-Government Balances

	Amounts falling due within one year		Amounts falling due after more Than one year	
	2008-09 £000	2007-08 £000	2008-09 £000	2007-08 £000
Balances with other central government bodies	-	134	-	-
Balances with local authorities	162	119	-	-
Balances with NHS Trusts	-	-	-	-
Balances with public corporations and trading funds	-	-	-	-
Intra-government balances	162	253	-	-
Balances with bodies external to government	13,712	13,614	2,425	2,751
<b>Total debtors at 31 March</b>	<b>13,874</b>	<b>13,867</b>	<b>2,425</b>	<b>2,751</b>

## NOTE 10 CASH AT BANKS AND IN HAND

	2008-09 £000	2007-08 £000
Cash in hand	<u>2</u>	<u>7</u>

## NOTE 11 CREDITORS

### 11(a) Analysis by type

	2008-09 £000	2007-08 £000
<b>Amounts falling due within one year:</b>		
Trade creditors	2,993	2,909
Other creditors	9	42
Current part of finance leases	38	-
Accruals and deferred income	2,189	2,045
	<b>5,229</b>	<b>4,996</b>
<b>Amounts falling due after more than one year:</b>		
Finance leases	139	-

### 11(b) Intra-Government Balances

	Amounts falling due within one year		Amounts falling due after more than one year	
	2008-09 £000	2007-08 £000	2008-09 £000	2007-08 £000
Balances with other central government bodies	11	7	-	-
Balances with local authorities	106	17	-	-
Balances with NHS Trusts	-	-	-	-
Balances with public corporations and trading funds	1	1	-	-
Intra-government balances	118	25	-	-
Balances with bodies external to government	5,111	4,971	139	-
<b>Total creditors at 31 March</b>	<b>5,229</b>	<b>4,996</b>	<b>139</b>	<b>-</b>

## NOTE 12 PROVISIONS FOR LIABILITIES AND CHARGES

	Early departure costs £000	Public legal claims £000	Other legal Claims £000	Total £000
Balance at 1 April 2008	433	1,020	269	1,722
Provided in the year	111	1,583	8	1,702
Provisions not required written back	-	-	(130)	(130)
Provisions utilised in the year	(203)	(3)	(126)	(332)
Unwinding of discount	(38)	-	-	(38)
<b>Balance at 31 March 2009</b>	<b>303</b>	<b>2,600</b>	<b>21</b>	<b>2,924</b>

### 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.

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## NOTE 13 GENERAL FUND

	2008-09 £000	2007-08 £000
Balance at 1 April	40,411	33,951
Net deficit for the year	(31,522)	(30,839)
Notional cost of capital	1,625	1,713
Cash deficit funded by Forestry Commission Scotland	26,849	35,058
Transfers of fixed assets from/to other Forestry Bodies	32	177
Transferred to general fund (realised element of revaluation reserve)	118	383
Timing between accrual and cash VAT	(129)	(43)
Non-cash inter-country transfers	216	11
	<u>(2,811)</u>	<u>6,460</u>
Balance at 31 March	<u>37,600</u>	<u>40,411</u>

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## NOTE 14 REVALUATION RESERVE

	2008-09 £000	2007-08 £000
Balance at 1 April	13,025	10,409
<b>Arising on revaluation during the year:</b>		
Forest Holidays buildings	-	479
Dwellings and other buildings	(4,836)	2,473
VME	385	47
	<u>(4,451)</u>	<u>2,999</u>
Realised revaluation surplus	(118)	(383)
Balance at 31 March	<u>8,456</u>	<u>13,025</u>

The following realised revaluation surpluses were transferred to the General Fund:

	2008-09 £000	2007-08 £000
Dwellings and other buildings	<u>(118)</u>	<u>(383)</u>

## NOTE 15 GOVERNMENT GRANT RESERVE

	2008-09 £000	2007-08 £000
	UK GRANTS	UK GRANTS
Balance at 1 April	51	-
Additions in year	320	51
Revaluation	-	-
Release to the I&E	-	-
<b>Balance at 31 March</b>	<b>371</b>	<b>51</b>

Note - The 2007/08 grant was shown in the previous accounts as a Donated Asset Reserve where as it should have been recorded as a Government Grant Reserve.

## NOTE 16 NOTES TO THE CASH FLOW STATEMENT

### 16(a) Reconciliation of net deficit to operating cash flows

	2008-09 £000	2007-08 £000
Net deficit for the year	(31,522)	(30,839)
Notional cost of capital	1,625	1,713
Depreciation charges	1,977	1,849
(Profit)/loss on sale of properties	402	250
Fixed asset write-off	242	22
Impairment of tangible fixed assets	2	11
(Profit)/loss on sale of other tangible fixed assets	243	108
Timing between accrual and cash VAT	(129)	(43)
Non-cash inter-country transfers	216	11
(Increase)/decrease in stocks	(255)	42
(Increase)/decrease in debtors	319	(1,351)
less movements in debtors relating to items not passing through I&E	-	(1,354)
Increase/(decrease) in creditors	372	327
Increase/(decrease) in provisions	1,202	785
<b>Net cash outflow from operating activities</b>	<b>(25,306)</b>	<b>(28,469)</b>

### 16(b) Analysis of capital expenditure and financial investment

	2008-09 £000	2007-08 £000
New planting	-	-
Payments to acquire tangible fixed assets	(2,754)	(6,835)
Receipts from sale of properties	885	199
Receipts from sale of other tangible fixed assets	-	-
Lease repayments	1	-
<b>Net Capital</b>	<b>(1,868)</b>	<b>(6,636)</b>

### 16(c) Analysis of financing

	2008-09 £000	2007-08 £000
Deficit funded by Forestry Commission Scotland	26,849	35,058
Donations towards capital expenditure	-	-
Government grants towards capital expenditure	320	51
<b>Financing</b>	<b>27,169</b>	<b>35,109</b>

## NOTE 17 CAPITAL COMMITMENTS

Amounts contracted for but not provided in the accounts amounted to £778,000 (2007-08: £1,062,000) and relates to outstanding work on the construction of the new Glentress Peel Visitor Centre (£540,000), the enhancement of David Marshall Lodge Visitor Centre (£236,000) and minor works on a building at Durriss (£2,000).

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## NOTE 18 COMMITMENTS UNDER LEASES

### (a) Operating leases

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

	<b>2008-09</b> <b>£000</b>	2007-08 £000
Land and building leases expiring within:		
One year	-	-
Two to five years	91	24
More than five years	23	87
	<b>114</b>	111
	<b>2008-09</b> <b>£000</b>	2007-08 £000
Other leases expiring within:		
One year	358	461
Two to five years	1,329	972
More than five years	-	-
	<b>1,687</b>	1,433

### (b) Finance leases

Commitments under finance leases are as follows:-

	<b>2008-09</b> <b>£000</b>	2007-08 £000
Rentals due in one year or less	38	-
Rentals due in more than one year but not more than two years	19	-
Rentals due in more than two years but not more than five years	4	-
Rentals due in more than five years	116	-
	<b>177</b>	-

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## NOTE 19 OTHER FINANCIAL COMMITMENTS

There were no other financial commitments as at 31 March 2009. (£nil at 31 March 2008).



## **NOTE 20 CONTINGENT LIABILITIES DISCLOSED UNDER FRS 12**

Legal claims have been made from the public totalling £19,500 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.

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## **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, 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 in the year to 31 March 2009 were:

BSW Timber plc	£3,719,000
Caledonian Paper	£3,393,000
Tilhill Forestry Ltd	£2,790,000

Amounts owing to Forest Enterprise Scotland at 31 March 2009 were:

BSW Timber plc	£771,000
Caledonian Paper	£358,000
Tilhill Forestry Ltd	£111,000

The partner of Stephanie Atwell, a member of the Forest Enterprise Scotland Management Board until October 2008, received a forestry grant of £157 through his business HM Paton & Co.

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## **NOTE 22 STATEMENT OF LOSSES AND SPECIAL PAYMENTS**

Losses totalled £46,000 from 21 cases (£87,000 from 15 cases in 2007-08).

Special payments totalled £1,700,000 from 40 cases (£1,141,000 from 27 cases in 2007-08).

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## **NOTE 23 POST BALANCE SHEET EVENTS**

These financial statements were authorised for issue on 7 July 2009 by the Accountable Officer.

## NOTE 24 FINANCIAL INSTRUMENTS

### 24.1 Investments in non-public sector bodies (Available for sale financial assets)

	2008-09 £000	2007-08 £000
At 1 April	1,833	-
Additions	-	1,833
Net gains/losses transfer from equity	-	-
Net gains/losses transfer to equity	-	-
<b>At 31 March</b>	<b>1,833</b>	<b>1,833</b>

Available for sale financial assets comprises Forest Enterprise Scotland's partnership share of Forest Holidays LLP, an unlisted investment denominated in UK pounds.

### 24.2 Financial Instruments by Category

	2008-09			2007-08		
	Loans and Receivables £000	Available- for-Sale £000	Total £000	Loans and Receivables £000	Available- for-Sale £000	Total £000
<b>Assets as per the Balance Sheet</b>						
Available-for-sale financial assets	-	1,833	1,833	-	1,833	1,833
Derivative financial instruments	-	-	-	-	-	-
Trade and other receivables	13,113	-	13,113	11,189	-	11,189
Financial assets at fair value through profit and loss	-	-	-	-	-	-
Cash and cash equivalents	2	-	2	7	-	7
<b>Total</b>	<b>13,115</b>	<b>1,833</b>	<b>14,948</b>	<b>11,196</b>	<b>1,833</b>	<b>13,029</b>

	2008-09			2007-08		
	Liabilities at fair value through the profit and loss £000	Other financial liabilities £000	Total £000	Liabilities at fair value through the profit and loss £000	Other financial liabilities £000	Total £000
<b>Liabilities as per the Balance Sheet</b>						
Borrowings (excluding finance lease liabilities)	-	-	-	-	-	-
Finance lease liabilities	-	177	177	-	-	-
Derivative financial instruments	-	-	-	-	-	-
Trade and other payables excluding statutory liabilities	-	3,666	3,666	-	3,225	3,225
<b>Total</b>	<b>-</b>	<b>3,843</b>	<b>3,843</b>	<b>-</b>	<b>3,225</b>	<b>3,225</b>

### 24.3 Exposure to Risk

Forest Enterprise Scotland's activities expose it to a variety of financial risks.

Credit risk – the possibility that other parties might fail to pay amounts due;

Liquidity risk – the possibility that the Forest Enterprise Scotland might not have funds available to meet its commitments to make payments; and

Market risk – the possibility that financial loss might arise as a result of changes in such measures as interest rates and stock market movements.

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

#### a) Credit Risk

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

Customers are assessed, taking into account their financial position, past experience and other factors, with individual credit limits being set in accordance with parameters set by Forest Enterprise Scotland.

The utilisation of credit limits is regularly monitored.

Forest Enterprise Scotland monitors overdue payments from customers on an individual basis. At 31 March 2009, Forest Enterprise Scotland made provision against seven debts totalling £21,000 analysed as follows:-

	<b>2008-09</b>
	<b>£000</b>
Legal proceedings underway	20
Other	1
	<b>21</b>

£3,171,000 of the £10,256,000 trade debtor balance is past its due date for payment. The past due amount can be analysed by age as follows:

	<b>2008-09</b>
	<b>£000</b>
Less than one month	1,525
One to two months	1,459
Two to three months	20
More than three months	167
<b>Total</b>	<b>3,171</b>

#### b) Liquidity Risk

Each financial year, the Scottish Government makes provision for the use of resources by Forest Enterprise Scotland via the Forestry Commission Scotland vote for revenue and capital purposes. 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 for Forestry Commission Scotland to operate for the financial year. Forest Enterprise Scotland is not therefore exposed to significant liquidity risks.

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

	<b>Less than 1</b>	<b>Between 1 and 2</b>	<b>Between 2 and 5</b>	<b>Over 5 years</b>
	<b>year</b>	<b>years</b>	<b>years</b>	<b>£000</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>At 31 March 2009</b>				
Borrowings (excluding finance lease liabilities)	-	-	-	-
Finance lease liabilities	38	19	4	116
Derivative financial instruments	-	-	-	-
Trade and other payables excluding statutory liabilities	3,666	-	-	-
	<b>3,704</b>	<b>19</b>	<b>4</b>	<b>116</b>

	Less than 1 year £000	Between 1 and 2 years £000	Between 2 and 5 years £000	Over 5 years £000
<b>At 31 March 2008</b>				
Borrowings (excluding finance lease liabilities)	-	-	-	-
Finance lease liabilities	-	-	-	-
Derivative financial instruments	-	-	-	-
Trade and other payables excluding statutory liabilities	3,225	-	-	-
	<b>3,225</b>	-	-	-

### c) Market Risk

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

#### (i) Cash flow and fair value interest rate risk

Forest Enterprise Scotland has no significant interest bearing assets or liabilities and as such income and expenditure cashflows are substantially independent of market interest rates.

#### (ii) Foreign Currency Risk

Forest Enterprise Scotland does not generally undertake transactions in foreign currency, therefore its exposure to foreign currency risk is minimal.

### **24.4 Capital risk management**

Forest Enterprise Scotland has no powers to borrow or invest surplus funds.

### **24.5 Fair Value Estimation**

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

**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.