



Annual Report and Accounts 2009-10

CONTENTS

	Page
Introduction by Hamish Macleod	3
Annual Report	
Who we are and what we do	5
Key performance indicators	6
Management Commentary	7
Corporate social responsibility	12
Leadership and governance	15
Forestry Commission Scotland Resource Accounts	
Finances	19
Remuneration report	21
Statement of accountable officer's responsibilities	25
Statement on internal control	26
Auditor's report	31
Financial statements	33
Forest Enterprise Scotland Accounts	
Finances	72
Remuneration report	75
Statement of accountable officer's responsibilities	79
Statement on internal control	80
Auditor's report	84
Financial statements	86

INTRODUCTION by Hamish Macleod, Chair, National Committee Scotland

This has been my first year as a Forestry Commissioner and I have also had the pleasure of being Chair of the National Committee for Scotland.

I have had a long relationship with Forestry Commission Scotland (FCS) but it is only when you start to meet the staff and discuss the issues they are dealing with that you get a real understanding of the depth and breadth of activity that comes under the umbrella of forestry. From encouraging children in Uddingston to walk or cycle to school through to supporting multi-million pound investment in wood processing mills; from working with the NHS to speed up health recovery times through to protecting endangered species. The list is endless but what really stands out for me is the commitment of all FCS staff to the organisation but also to forestry in general.

Climate change is a huge issue for all of us and this year I particularly welcomed the publication of the Read Report “Combating Climate Change – A Role for UK Forests” which provides robust evidence for support for woodland creation and the use of timber, particularly in construction. This gives even more impetus for us to achieve the longer term ambition of increasing Scotland’s woodland cover from 17% to 25% in the second half of this century.

It’s been a fascinating and challenging year, which this report gives some flavour of, and I eagerly await the challenges of the coming year.

AITHISG BHLIANDHNAIL IS CUNNTASAN FACAL-TOISICH

'S e seo a' chiad bhliadhna agam mar Choimiseanair na Coilltearachd agus tha an cothrom tlachdmhor air a bhith agam cuideachd a bhith ann an dreuchd Cathraiche Comataidh Nàiseanta na h-Alba.

Tha dàimh fada air a bhith agam le Coimisean na Coilltearachd Alba (FCS) ach 's ann nuair a thòisicheas tu a' coinneachadh ris an luchd-obrach agus a' deasbad air na ceistean leis a bheil iadsan a' dèiligeadh, a gheibh thu fìor thuigse air doimhneachd agus leud na gnìomhachd a tha a' tighinn fo sgàil coilltearachd. Bho bhith a' brosnachadh chloinne ann an Uddingston gus a bhith a' coiseachd no a' rothaireachd don sgoil troimhe gu bhith a' cur taic ri tasgadh fiach ioma-mhilleanan ann am muilnean giullachd fiodha; bho bhith ag obair leis an NHS gus amannan leighis a luathachadh troimhe gu bhith a' dìon ghnèithean ann an cunnart. Tha an liosta gun chrìch, ach 's e tha gu fìrinneach a' seasamh a-mach dhòmhsa, dealas luchd-obrach FCS uile don bhuidhinn ach cuideachd do choilltearachd san fharsaingeachd.

'S e ceist mhòr dhuinn uile a th' ann an atharrachadh gnàth-shìde agus am-bliadhna tha mi a' cur fàilte shònraichte air foillseachadh Aithisg Read "Cothachadh Atharrachadh Gnàth-shìde – Àite do Choilltean na Rìoghaidh Aonaichte" a tha a' solarachadh fianais làidir airson taic do chruthachadh fearann coillteach agus cleachdadh fiodha, gu h-àraid ann an togail. Tha seo a' toirt fiù agus barrachd gluasaid dhuinn gus an glòir-mhiann fad-ama a choileanadh a thaobh còmhachadh fearann coillteach na h-Alba a mheudachadh bho 17% gu 25% anns an dàrna leth den linn seo.

'S e bliadhna tharraingeach agus dhùbhlanach a th' air a bhith ann, a tha air a nochdadh gu ìre bhig san aithisg seo, agus tha mi a' dèanamh fiughair ri dùbhlain na bliadhna a tha ri teachd.

Seumas MacLeòid

Cathraiche Comataidh Nàiseanta na h-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

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 2009-10 annual budget for Forestry Commission Scotland is approved by the Budget (Scotland) Act 2009 and revised by:

- the 2009-10 Autumn Budget Revision to the Budget (Scotland) Act for the year ending 31 March 2010; and
- the 2009-10 Spring Budget Revision to the Budget (Scotland) Act for the year ending 31 March 2010.

KEY PERFORMANCE INDICATORS

The Key Agency Targets set by the Forestry Commission National Committee for Scotland for 2009-10 for Forest Enterprise Scotland to manage, and the actual outturns were:-

AIM	KEY TARGET	Measure	Achieved	Target
1. Manage the forested estate in accordance with the principles of sustainable forest management	Percentage of the national forest estate independently certified as being sustainably managed.	%	100%	100%
2. Improve the appearance of the National Forest Estate	Area of woodland managed using alternatives to clearfelling	Ha	76,175	75,000
3. Maximise the value to the Scottish Economy of the estate's timber resource	Volume of wood harvested in relation to the sales plan	km3 (+/- 5%)	3,354 (+2.1%)	3,285
4. Focus on forestry for people	Area managed within 4 km of settlements of more than 500 people that meet the accessible woodland standard.	Ha	86,302	83,000
5. Make best use of other forest products and estate assets	Maximise the opportunity for net income from development activities	£m	7.4	7
6. Maintain an efficient and effective organisation	f. Cash deficit (+/- 1%)	£m	8.2	11.3
	Total Direct Production Unit Cost (excluding Haulage) not to exceed	£/m3	12.10	11.50
7. Contribute to Climate Change mitigation through reducing the agencies carbon footprint	Annual % reduction in carbon emissions from offices	%	Data not available at time of publication	3%
	Annual % reduction in carbon emissions from administrative travel	%	10%	5%
	Volume of wood supporting renewable energy schemes	km3	386	350

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

The Scottish Government's purpose is to increase sustainable economic growth and forestry plays an important role contributing £670m per year across a range of areas, including: the timber and processing sector; forest tourism such as mountain biking and wildlife watching; woodland creation and management; biomass for heat and power; and developments on the national forest estate.

The Forest Enterprise Scotland Strategic Plan for the National Forest Estate 2009 -13 is in place after extensive consultation. It sets out how we will implement the Scottish Forestry Strategy on the national forest estate and sets the context and direction of the ten associated local district plans. These plans account for local priorities and context and provide direction for implementing our repositioning policy- which ensures that the nature and distribution of the national forest estate better reflects its current and future role and purpose.

Although the economy remained weak the timber processing sector held up well and there was continued investment in new capacity as well as significant capital investment in the biomass sector. This winter's weather was the most severe we've seen for many years but, through strong co-operation from all involved, we were able to minimise impacts on the processing sector and special efforts were made to support mills threatened with outages. There was significant impact on weather dependent programmes, such as restocking and road construction, and we actively managed the situation to draw forward alternate programmes.

We have secured additional flexibility for forestry schemes within the Scottish Rural Development Plan which is the land management support scheme that incorporates most of the agriculture, forestry and nature conservation grant schemes. Our staff will now deal directly with applications of up to £750k value which should facilitate the handling of woodland creation schemes. The Rural Priorities element is the main delivery mechanism for woodland creation in the SRDP and has seen significant changes in the last year including increased payment rates for woodland creation and we have begun to see a rise in applications.

Climate Change is very much centre stage and forestry is clearly a main strand in tackling the effects. This year's Read Report 'Combating Climate Change – a role for UK Forests' represents a significant milestone in the development of a robust evidence base to guide forestry's mitigation and adaptation roles in tackling climate change. The research shows that woodland creation provides highly cost-effective and achievable emissions abatement and, through sustainable forest management, the total carbon stored in the forest and its associated 'wood chain' increases over time. Using timber in construction also avoids the emissions associated with more fossil fuel intensive materials such as steel and concrete.

Threats from pests and diseases are also high on the agenda and we are continuing to work very closely with the Forestry Commission's Plant Health Service to prevent the introduction of new pests and pathogens and to take appropriate action against existing ones such as Red Band Needle Blight, *Phytophthora ramorum* and *kernoviae*, the Great Spruce Bark Beetle (*Dendroctonus micans*) and the recently discovered Pine-tree Lappet Moth (*Dendrolimus pini*).

The National Planning Framework specifies the Central Scotland Green Network as one of 14 national developments. This really highlights how forests and woodlands have a role, at a nationally important level, in delivering healthy living, urban renewal and community development as well as improving biodiversity and environmental quality.

Our Woodlands In and Around Towns programme continues to fund improvements to urban woodland making a significant contribution to the quality of life of our urban communities.

The new draft UK Forestry Standard and associated suite of Guidelines were open to public consultation during the year and we will continue to be involved as they develop.

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:

- saw the publication of the Scottish Government's Climate Change Delivery Plan, which fully recognises the contribution of forestry in meeting the Government's ambitious greenhouse gas emissions and sets targets for woodland creation;
- hosted a Parliamentary reception highlighting the important role of forestry and timber in combating climate change;
- have been exploring renewable energy potential on the national forest estate, and to support this the Climate Change (Scotland) Act 2009 allows us to enter joint ventures with developers and local communities to accelerate renewable energy developments;
- have signed a deal with Partnerships for Renewables to develop windfarms in Central Scotland and the Borders and are exploring options to work with commercial partners on wind energy projects across the rest of Scotland;
- saw Environment Minister Roseanna Cunningham announce the establishment of the Regional Biomass Advice Network (RBAN) to help businesses and the wider community to realise the economic and environmental benefits of using wood as a renewable energy source;
- continued with the third round of the £3.3M Scottish Biomass Heat Scheme (SBHS), which is helping to support delivery of the Scottish Government's target for 11% of heat to come from renewable sources by 2020.

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:

- continued working with industry to deliver the Timber Development Programme;
- have improved our knowledge of the timber properties of Sitka spruce and other commercial softwoods, through research ;
- have seen the Strategic Timber Transport Fund fully subscribed. In the last five years the Scheme has awarded over £14m to 38 projects with an overall value of £31m;
- introduced a one-off Challenge Fund of £0.5M, open to local authorities, to contribute to expedient repairs of key timber transport routes in response to this year's extreme winter conditions;
- have been working with Housing Associations, through our National Forest Land Scheme, to promote the development of affordable housing using Scottish timber at sites such as Glenmore and Kilmun;
- have been working closely with Scottish Government colleagues and Highland Council in the development of Scotland's Housing Expo which will take place in Inverness in August 2010;
- saw the demand for woodfuel in Scotland continue to rise and is estimated to have increased four-fold in the last 5 years. In addition to Caledonian Paper's Combined Heat and Power plant in Irvine this year has also seen the commissioning of two further pellet mills: Balcas at Invergordon and Puffin Pellets in Aberdeenshire.

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:

- published our Business Development Strategy, which highlighted the important role that forestry has to play in developing Scotland's economic potential;
- continued to promote mountain biking and attracted large numbers to our forests, for example there were 400,000 visitors to the 7stanes mountain bike trails in South Scotland;
- worked with other public and voluntary agencies with an interest in mountain biking to produce A National Strategic Framework 'The Sustainable Development of Mountain biking in Scotland' which will ensure that Scotland continues to take full advantage of the growth in mountain biking;
- continued work on Glentress Peel, which is a new visitor facility being built, with funding from Scottish Enterprise and sportscotland, in the heart of the Tweed Valley Forest Park;
- as part of the Year of Homecoming 2009 delivered, in partnership with the Royal Commission on the Ancient and Historical Monuments of Scotland, our Forest Heritage Scotland initiative;
- continued our successful modern apprenticeship scheme, which in just five years has become an acknowledged industry leader;
- been awarded the prestigious Dark Sky Park status for Galloway Forest Park, the first in the UK;

- continued our joint venture with forestholidays and seen the opening of a new £2.1 million cabin site at Loch Long, Ardgartan.

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:

- launched the Central Scotland Green Network – Europe's biggest greenspace;
- been working to strengthen the evidence base around our successful WIAT programme;
- begun work on setting up a National Network of Key WIAT sites;
- continued the National Forest Land Scheme (NFLS) providing opportunities for communities to acquire land to meet their local development aspirations including land for affordable housing;
- have published a 'Working with Communities' web page to help illustrate the opportunities for people and groups to get involved and enjoy their woodlands;
- revised our Woods for Learning Strategy.

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:

- updated our Woods for Health Strategy;
- taken part in the 'Health Promoting Hospitals' initiative, working at several hospital sites to green the NHS Estate;
- helped develop the 'Urban Jungle' - a natural play area for active outdoor learning at Merrylee Primary School in Glasgow;
- won the Michael Varnam award in recognition of outstanding contribution to Health, Humanity and Environment for our Branching Out initiative;
- worked in partnership to encourage active travel to Uddingston Grammar School.

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:

- worked with the Scottish Government on their Climate Change Adaptation Framework;
- worked with the Scottish Soil and with Scottish Environment Protection Agency to deliver the River Basin Management Plans forestry related actions;
- started a project to provide a risk based hazard assessment of the probable nature and extent of landslides on the national forest estate;
- run an innovative two-day Urban Woodland Design course to demonstrate how design can positively contribute to the Woodlands In and Around Towns;
- signed a joint agreement with Historic Scotland, which sets out a more integrated working relationship and will optimise the stewardship of the historic environment where there are woodlands and forests;
- launched our new publication Historic Environment Information and Advice for Forest and Woodland Managers in Scotland;
- worked with partners to reinvigorate the hospital landscape and design accessible greenspace and woodland at Ninewells Hospital in Dundee;

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:

- brought 94% of woodland designated sites on the national forest estate into favourable or recovering condition;
- seen increased uptake of grants to manage existing and to plant new native woodlands;
- published guidance, Developing Native Woodland Habitat Networks, to help support land managers planning new native woodland or the conversion of non-native woods;
- completed our suite of Action Notes for key threatened woodland species, with the final three added this year;
- in partnership with Butterfly Conservation Scotland, been advising land managers on suitable management and sources of grant support for the two threatened butterfly species;

- completed our consultation on the concept of red squirrel strongholds and we will now work to plan and manage 18 forest areas;
- completed half of the Native Woodlands Survey of Scotland;
- published new guidance notes show how to manage woodlands to help bats, wildcat, otter and great-crested newt, which are European protected species.

Other Disclosures

Personal Data Related Incidents: There were no protected personal data related incidents reported for Forestry Commission Scotland in 2009-10. 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: A priority for the next year will be completing a review (based on the new UK Climate Projections 09) of the 2008 synopsis on the impacts of climate change on forestry in Scotland. We will also focus on:

- developing our understanding of the factors affecting the resilience of ‘future forests’;
- publishing the Forests and Climate Change Guidelines;
- continuing to explore new opportunities and mechanisms to achieve the required level and types of woodland creation in Scotland;
- developing guidance on the strategic and practical management of pest and disease threats in Scottish forests;
- implementing forestry and woodfuel recommendations in the Renewable Heat Action Plan and the Renewable Energy Action Plan.

Timber: During the coming year we will be:

- continuing to work closely with the Scottish Government and others on issues around domestic wood fibre supply and potential demand as the wood fuel industry continues to grow;
- encouraging more use of timber such as producing and publishing a guide to utilising timber cladding;
- exploring the potential for the manufacture of new timber products such as cross laminated timber from home grown species;
- supporting initiatives to improve timber supply chain efficiency and producing a summary of the outputs of the Strategic Timber Transport Scheme;
- developing the hardwood and premium softwood sector including by organising and supporting events to improve understanding of best practice in growing and marketing quality hardwoods.

Business development: Key areas of work in the coming year will be:

- completing the feasibility studies into the further economic development opportunities at Leanachan by Fort William and at Glentress;
- contributing to the work of the Forest Industries Advisory Board to promote innovation, collaboration and competitiveness in sector development;
- hosting, with ConFor, a conference on the opportunities for forestry and timber products in the move to a low carbon economy;
- identifying, along with the forest industries, the skills sector and Scottish Government, what needs to be done (and who will lead) to deliver a skilled, flexible workforce for the 21st century;
- working with Napier University, FEI and other partners on delivering a pilot career event to encourage young women to consider a career in forestry.

Community development: During the coming year a key priority will be the development of the Central Scotland Green Network and building an effective partnership between the wide range of delivery bodies. We will also be concentrating on extending the National Forest Land Scheme to include leasing once the relevant provisions are in place. Other priority areas include:

- publishing a progress report on the first 5 years of WIAT;
- exploring the potential role of WIAT in supporting the delivery of the Scottish Government climate change and economic regeneration priorities;
- ensuring that the wind and hydro power of the national forest estate is promoted in ways that secure community benefits;
- supporting the training of Community, Recreation and Tourism leads in each Forest District;
- supporting community ownership and management on the national forest estate where this will bring increased benefits. Once legal cover has been established, incorporate into the NFLS, the leasing of national forest estate woodlands to communities;
- developing forestry's role in education and lifelong learning such as exploring potential opportunities for parents and carers to work with nurseries and schools to help support forest kindergarten and Forest School.

Access and health: Our main aims for the next year are:

- contributing to health improvement and narrowing the health gap in Scotland by increasing the number of people who visit woodlands and the outdoors such as extending the evaluation of social forestry initiatives in healthcare settings including woodland hospital settings;
- making access to woodlands easier for all sectors of society;
- using woodland access to help improve physical and mental health in Scotland including empowering health boards to adopt the Branching Out service for patient's using mental health services;
- providing a greater range of ways for people to enjoy woodlands;
- sharing good practice and delivering training on Branching Out.

Environmental quality: In the coming year we will be promoting the new UK Forestry Standard and associated suite of Guidelines. We will also be working on:

- helping to protect Scotland's water, soil and air resource;
- contributing to Scotland's diverse and attractive landscapes;
- helping to manage Scotland's historic environment and its interpretation and enjoyment.

Biodiversity: Particular priority in 2010-11 will be given to:

- enhancing delivery of native woodland targets for expansion, condition and restoration through SRDP;
- developing our understanding of and policy responses to the effects of climate change on biodiversity;
- integrating species management objectives into broader woodland management in a practical and sustainable manner;
- continuing to develop a strategic approach to control and prevention of problems from *Rhododendron ponticum* and other non- native species;
- increasing awareness of woodland biodiversity as part of International Year of Biodiversity 2010.

CORPORATE SOCIAL RESPONSIBILITY

Business Sustainability

During the year we have made progress in meeting the aims of our environmental policy. We have completed the development of our Environmental Management System and this will be assessed against ISO 14001:2004 by external auditors during the next year. We will carry out audits to check for compliance against our EMS and the ISO, and put in place plans to further improve our environmental performance.

We have reviewed our systems for the collection and management of sustainability data to enable data collection to become embedded within existing systems and help to provide information for the increasing number of reports required.

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 continued on the implementation of our People Strategy. We introduced an online recruitment system as part of modernising our systems, and roll out in November 2009. We have also undertaken efficiency reviews of our job evaluation and welfare provision.

The new grievance and discipline policies and procedures were implemented in line with the statutory changes and a review of the non-pay benefits resulted in a much more targeted scheme, delivering what staff told us they value. Extensive engagement with the business took place looking at the strategic implications of having a 'no mandatory retirement age' policy. The new policy was published in March 2010. A new Partnership Agreement between the Forestry Commission and the Forestry Commission Trade Unions was signed and launched.

Comprehensive reporting of people related management information has been introduced at board level within Scotland this year. Quarterly reports focus on workforce issues (e.g. turnover / retirement), absence, recruitment and diversity.

Equality and Diversity

As reported last year, the Forestry Commissioners and Executive Board have continued to regard the Commission's Equality and Diversity agenda a high priority for the organisation, in particular, diversification of the workforce and provision of services to diverse communities. Progress was frequently discussed at their meetings throughout the year.

A particular focus has been on 'mainstreaming' diversity into business as usual, whilst prioritising areas for improvement where opportunities are greatest. For example, given the gender imbalance in Forestry Commission Scotland, Forestry Commission Scotland has run a pilot 'Women in Forestry' event to attract more young women into the forestry sector. Further events are planned.

Areas of specific focus this year:

- monitoring the progress of the new Single Equality Bill. This will have a considerable impact on how the Commission delivers its Equality and Diversity responsibilities, and the Scottish Government may well have an alternative stance to Westminster on some of the key issues. The Forestry Commission has participated in consultations on the content of the Bill as appropriate;
- the Commission's second Disability Equality Scheme (DES) was published at the end of November. The DES was prepared after engagement with a range of disabled individuals and groups representing the interests of disabled people. The feedback helped inform our Action Plan within the DES; and
- the three legally required annual Monitoring Reports (Disability, Race and Gender) were published by the required deadlines. These Reports focussed mainly on the Forestry Commission's workforce. We were able to report slight increases in our workforce diversity: 33% of Forestry Commission staff are female; 0.6% Black, Asian and Minority Ethnic (BAME) and 2.2% have declared a disability (last year the figures were 32%, 0.4% and 2.1% respectively).

The Monitoring Reports do not indicate anything discriminatory in the Commission's processes and procedures. Rather, the lack of diversity occurs at application stage, i.e. the Commission does not attract diverse applicants.

To that end, we have started to raise the profile of the Forestry Commission with the lifestyle press targeted at diverse communities (e.g. Able and Roots magazines) and at events (e.g. Black History Month, Stonewall, Diversity Jobs and Opportunities Fair, Forestry Commission's Graduate Recruitment). More use of images of diverse customers is being encouraged on the Commission's website and within our publications.

Much of the work to mainstream the diversity agenda is carried out at the front-line of the Commission's business i.e. customer service initiatives developed with the needs of diverse communities in mind. This year we were able to submit entries for the Civil Service Equality and Diversity Awards 2009 to highlight the excellent work completed by Central Scotland Conservancy.

The Forestry Commission has a programme of four levels of diversity training for all staff. All staff received this training by the end of March 2010.

Diversity Champions have been appointed which ensures that Diversity is discussed at Board level. We also appointed staff with specific diversity responsibilities (mainly to support the Equality in Action process). In addition, the Director General has set personal and corporate diversity targets for the Commission's senior staff group via their forward job plans.

Many of our Districts and Conservancies are delivering a wide range of services and facilities to diverse communities. This is being encouraged and supported and best practice shared further. Examples of these are: hosted visits for Muslim communities to all access trails; mountain-biking facilities for people with a disability and providing facilities for weddings and civil ceremonies etc.

Learning & Development

We have continued with the implementation of the People Strategy. This has included:

- equality & diversity training for over 3,000 staff;
- continuation of management development for operational (frontline) managers in Scotland, along with continued roll out of tactical (middle) manager programme across the whole of GB;
- future Leaders competency framework developed as part of our Leadership Development Strategy;
- completion of the 2009 staff survey resulting in support at corporate and cost centre level for managers in engaging with staff, specific union engagement on the matter and increased communication from senior management; and
- support for each part of the business in preparation for our Investors in People review in June 2010.

Technical training has continued to face high demand and trainers have successfully met new delivery targets which saw a 20% increase in face to face delivery. The team continue to support over 180 different technical courses along with developing new courses for:

- business sustainability;
- continuous cover forestry; and
- hylobious management and control.

We have also undertaken a review of technical training and are introducing a more robust system of identifying training needs and managing delivery of training to meet those needs.

Health and Safety

Policy

It is the Forestry 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 management of chainsaw use in the Forestry Commission. We also audited our management of Hand Arm Vibration.

Accidents

The following figures set out the incidence of reportable accidents (those causing incapacity for more than three days) for all staff in 2009-10 and the preceding years.

Year	No of accidents per 100 employees
2009-10	0.80
2008-09	0.76
2007-08	1.42
2006-07	1.32

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
Roseanna Cunningham MSP	Minister for Environment

National Committee for Scotland

Hamish Macleod	Acting Chair and Forestry Commissioner
Dr Bob McIntosh	Director, Forestry Commission Scotland and Forestry Commissioner
Richard Wakeford	Director General, Environment, Scottish Government (to July 2009)
Paul Gray	Director General, Environment, Scottish Government (from September 2009)
Simon Pepper OBE	Non-executive member (to June 2009)
Gordon Mann OBE	Non-executive member (from July 2009)
Simon Rennie MBE	Non-executive member
Dr Hugh Insley	Chief Executive, Forest Enterprise Scotland (to December 2009)
Simon Hodge	Chief Executive, Forest Enterprise Scotland (from December 2009)
Paul Snaith	Head of Corporate Services, Forestry Commission Scotland

Forestry Commission Scotland Management Board

Dr Bob McIntosh	Director, Forestry Commission Scotland
Paul Snaith	Head of Corporate Services, Forestry Commission Scotland
Simon Hodge	Head of Policy, Forestry Commission Scotland (to December 2009) / Chief Executive, Forest Enterprise Scotland (from December 2009)
David Henderson-Howat	Head of Policy, Forestry Commission Scotland (from December 2009)
James Simpson	Head of Grants & Licences, Forestry Commission Scotland
Helen Paterson	HR Business Partner (Scotland) (to June 2009)
Alison McSheaffrey	HR Business Partner (Scotland) (from August 2009)
Sheryl May	Head of Communications, Forestry Commission Scotland
Dr Hugh Insley	Chief Executive, Forest Enterprise Scotland (to December 2009)

Forest Enterprise Scotland Management Board

The Agency Management Board gives strategic direction and leadership to the forest districts within Scotland. The membership for 2009-10 was:

Hugh Insley	Chief Executive (Chair) (to December 2009)
Simon Hodge	Chief Executive (Chair) (from December 2009)
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
Helen Paterson	HR Business Partner (Scotland) (to June 2009)
Alison McSheaffrey	HR Business Partner (Scotland) (from August 2009)
Nicol Sinclair	Planning Manager
Michael Ansell Director	Forestry Business Units
Nicola Whitaker	Head of Corporate Service (from May 2009)

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 (to December 2009), then Pamela Warhurst (from January 2010), 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 Forestry Commission Great Britain/England Annual Report and Accounts.

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

Audit and Risk Committee

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

The members of the ARC for Scotland are:

Non-executive members:

- Hamish Macleod (Chair)
- Simon Rennie
- Gordon Mann

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
- 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.

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.

The main current and emerging risks faced by Forestry Commission Scotland are described in the Statement of Internal Control.



Forestry Commission Scotland
Coimisean na Coilltearachd Alba

Forestry Commission Scotland

Resource Accounts 2009-10

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.

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 2009-10 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.

Significant variances against estimate

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

	Estimate £000	Outturn £000	Difference £000
Total resource	83,350	6,935	76,415
Net cash requirement	65,050	49,425	15,625

The net out-turn for 2009-10 shows a saving of £76.4M against estimate. Of this £75.4M, classified as AME, arises from the adoption of International Financial Reporting Standard IAS 41 (Agriculture). That required the Forest Estate to be separated between land, biological assets (those grown for transformation into agricultural products e.g. trees into timber), and other trees. The accounting treatment requires that any gain or loss on revaluation of the biological asset is taken straight to the OCS (rather than revaluation reserve) and associated cost of timber is shown as an expense.

All other programme and income costs were in line with 2008-09 with modest increases in:

- Grants paid to private woodland owners increased by £0.7M to £12.3M.
- Support for Forestry Development programme including Strategic Timber Transport Fund grant payments by £1.9M to £8.9M

These increases were partly offset by a reduction in the level of support to Forest Enterprise Scotland (FES) by £1.2M to £7.8M, mainly from FES' ability to generate increased income from sale of timber.

£65M cash estimate comprises the total cash funding voted from the Scottish Government. Of this, Forestry Commission Scotland drew down £51M during the year, leaving £14M available to meet the increase in cost of capital, when compared to estimate.

Net assets have increased by £174M mainly due to the upward revaluation of the Forest Estate.

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 payment policy directed in the Government's Better Payment Practice Code and Scottish Government's Public Finance Manual. Unless otherwise stated in the contract, we aim to pay within the Scottish Government's tighter target of 10 working days from the receipt of goods and services or the presentation of a valid invoice, whichever is the later. A sample analysis of bill payments for 2009 -10 indicates that 97.6% were paid within the 10 day target and 99.4% within the 30 day target set by the Government's Better Payment Practice Code.

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 2009-10 of 4.8.

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
28 July 2010

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 non-consolidated performance payments, 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 non-consolidated performance payments. Further information on the work of the SSRB can be found at www.ome.uk.com.
- Reporting Officers recommendations on the relative performance of each of their senior staff, whether a bonus should be paid and if so whether low or high. The Senior Pay Committee consider the recommendations, determine the allocation of senior staff to tranches, and decide the percentage increase to salary and any non-consolidated performance payment 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, 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:

	Date of current contract/letter	Unexpired term (months)
Gordon Mann	01/07/2009	27
Simon Rennie	27/11/2009	32
Simon Pepper	27/06/2006	-

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:

	2009-10		2008-09	
	Salary £000	Benefits in kind to nearest £100	Salary £000	Benefits in kind to nearest £100
Dr Bob McIntosh	115-120	-	115-120	-
Paul Snaith	60-65	-	60-65	-
Simon Hodge	50-55 ¹	-	85-90	-
David Henderson-Howat	20-25 ²	-	n/a	n/a
Helen Paterson	5-10 ³	-	20-25 ⁴	-
Alison McSheaffrey	35-40 ⁵	-	n/a	n/a
Sheryl May	20-25 ⁶	-	30-35 ⁷	-
James Simpson	50-55	-	45-50	-

The salary and pension entitlements of Hugh Insley and Simon Hodge, members of the National Committee for Scotland and Chief Executive of Forest Enterprise Scotland to 6 December 2009 and from 7 December 2009 respectively, are borne and disclosed in the Forest Enterprise Scotland Annual Report and Accounts 2009-10.

Salary

'Salary' includes basic salary; non-consolidated performance pay; 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.

¹ Figure quoted is for the period 1 April 2009 to 6 December 2009. The full year equivalent is 80-85.

² Figure quoted is for the period 7 December 2009 to 31 March 2010. The full year equivalent is 75-80.

³ Figure quoted is for the period 1 April 2009 to 1 June 2009. The full year equivalent is 35-40.

⁴ Figure quoted is for the period 29 September 2008 to 31 March 2009. The full year equivalent is 40-45.

⁵ Figure quoted is for the period 3 August 2009 to 31 March 2010. The full year equivalent is 50-55.

⁶ Figure quoted is for the period 7 September 2009 to 31 March 2010 on part time (0.8) hours. The full year equivalent is 45-50.

⁷ 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 2010 and related lump sum	Real increase in pension and related lump sum at pension age	CETV at 31 March 2010	CETV at 31 March 2009*	Real increase in CETV	Employer contribution to partnership pension account
	£000	£000	£000	£000	£000	Nearest £100
Bob McIntosh	40-45 plus LS of 145-150	2.5-5 plus LS of 7.5-10	1,122	1,003	66	-
Paul Snaith	35-40 plus LS of 0-5	2.5-5 plus LS of 0-2.5	677	583	60	-
Simon Hodge	20-25 plus LS of 60-65	0-2.5 plus LS of 5-7.5	330	273	28	-
David Henderson-Howat	30-35 plus LS of 90-95	0-2.5 plus LS of 5-7.5	668	594	36	-
Helen Paterson	0-5 plus LS of 0-5	0-2.5 plus LS of 0-2.5	9	3	5	-
Alison McSheaffrey	0-5 plus LS of 0-5	0-2.5 plus LS of 0-2.5	32	25	5	-
Sheryl May	5-10 plus LS of 0-5	7.5-10 plus LS of 0-2.5	84	7	(4)	-
James Simpson	15-20 plus LS of 25-30	0-2.5 plus LS of 0-2.5	222	189	19	-

*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 may opt for either the appropriate defined benefit arrangement or a 'money purchase' stakeholder pension with an employer contribution (**partnership** pension account).

Employee contributions are set at the rate of 1.5% of pensionable earnings for **classic** and 3.5% for **premium**, **classic plus** and **nuvos**. Benefits in **classic** accrue at the rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years initial 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 for service before 1 October 2002 calculated broadly as per **classic** and benefits for service from October 2002 worked out 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 a 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 www.civilservice-pensions.gov.uk

Cash Equivalent Transfer Values

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

The figures include the value of any pension benefit in another scheme or arrangement which the member has transferred to the Civil Service pension arrangements. They also include any additional pension benefit accrued to the member as a result of their buying additional pension benefits at their own cost. CETVs are worked out within the guidelines and framework prescribed by the Institute and Faculty of Actuaries and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are taken.

Real increase in CETV

This reflects the increase in CETV that is 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 members of the National Committee for Scotland received the following remuneration for their services during the year ended 31 March 2010:

	2009-10 £000	2008-09 £000
Gordon Mann	5	n/a
Simon Pepper	2	6

The remuneration of Hamish Macleod, non-executive Forestry Commissioner and member of the National Committee for Scotland, is borne and disclosed in the Forestry Commission Great Britain/England Annual Report and Accounts 2009-10. Richard Wakeford and Paul Gray, members of the National Committee for Scotland, are employed by the Scottish Government as Head of Environment and Rural Affairs and do 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
28 July 2010

STATEMENT OF ACCOUNTABLE OFFICER'S RESPONSIBILITIES

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

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

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

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

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

STATEMENT ON INTERNAL CONTROL

1. Scope of Responsibility

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

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

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

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

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

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

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

2. Purpose of the System of Internal Control

The system of internal control is designed to manage risk rather than eliminate the risk of failure to achieve the Forestry Commission Scotland's policies, aims and objectives. It can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify the principal risks to the achievement of Forestry Commission Scotland's policies, aims and objectives; to evaluate the nature and extent of those risks and to manage them efficiently, effectively and economically. The process within Forestry Commission Scotland accords with the SPFM and has been in place for the year ended 31 March 2010 and up to the date of approval of the annual report and accounts, and accords with guidance from the Scottish Ministers.

3. Risk and Control Framework

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

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

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

- Policies set by the National Committee for Scotland and the Scotland Management Board. Written procedures support the policies where appropriate.
- Comprehensive regular reporting to the National Committee and Management Board designed to monitor key risks and their controls. Decisions to rectify problems are made at their regular meetings.
- Planning and budgeting systems used to set objectives agree action plans and allocate resources. Progress towards meeting planned objectives is monitored regularly.
- Risk registers are in place to record the assessment of inherent and residual risk and these are reviewed and updated on a regular basis.
- Business Continuity Plans have been produced recording the key actions and procedures to effect the recovery of Forestry Commission Scotland's critical business activities or key enabling capabilities should a break in continuity occur.

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 2010 and up to the signing of the accounts, Forestry Commission Scotland has:

- Consolidated the risk management process with the Forestry Commission Scotland Management Board (FCSMB) actively considering risk when considering programme and policy proposals at each Board meeting. Senior Responsible Owners (SROs) reviewed and amended the register during February / March 2010 and the updated register was formally considered and approved by the FCSMB on 17th March 2010.
- Participated in the Forestry Commission (FC) wide, Risk Management Group (RMG), which met on 27 August 2009 and 2 December 2009 as separate meetings and incorporated in to the agenda of the annual meeting of Finance Managers which met on 28 – 29 January 2010. These meetings reviewed developments across the FC and considered the most efficient and effective processes to ensure that adequate risk management and business continuity planning arrangements are in place.
- With active involvement of responsible line managers, reviewed all Business Continuity Plans (BCPs) in place in FC Scotland to ensure that they remain up to date, relevant and accessible.
- Undertaken a risk assessment of the organisations security requirements for its information assets by identifying threats and vulnerabilities and developed a set of controls to reduce the risks in accordance with ISO 27001.

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 on 1 July 2009, 28 October 2009, 10 March 2010 and 28 July 2010. At each meeting they considered a range of reports from management, and from internal and external audit.

The ARC membership consists of 3 Non-Executives, with Forestry Commission Scotland's Director, Agency Chief Executive and Head of Corporate Services, the Head of Internal Audit and Audit Scotland representatives normally also in attendance. It deals with higher level issues concerning control and governance and supports the National Committee, Country Director and the Agency Chief Executive. It is provided with detailed advice on the work of Internal Audit in particular and control in general.

The ARC advises the National Committee and Accountable Officers on:

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

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

4. Protecting Information in Government (Information Assurance)

The Data Handling Review (DHR) published in June 2008 identified the areas where government needed to improve its data handling capability and put in place a firm set of rules for departments to follow. In determining the Forestry Commission's approach to information assurance, we have taken the view that our information systems hold a relatively small number of records and that the volume of information requiring a protective marking is relatively low.

Director Finance GB acts as the Senior Information Risk Owner (SIRO) on behalf of the FC Executive Board. He chairs the Information Security Management Forum (ISMF) which co-ordinates and controls the implementation of information security across the Forestry Commission. The ISMF met on 10 occasions during 2009-10. The work of the ISMF is supported on a day to day basis by the Departmental Security Officer and the IT Security Officer.

The ISMF has used the SIRO aide memoire, produced by the Cabinet Office, to identify and monitor the key actions needed to implement the 21 mandatory measures as defined by the DHR. Regular progress reports are provided to management and the Audit & Risk Committee during the year and the SIRO's Annual Report summarises progress over the year. The report for 2009-10 contains an annex which compares our progress with the 33 Minimum Mandatory Measures (MMMs) in the "Protecting Information in Government" report published by the Cabinet Office in January 2010.

One of the key mandatory actions required is information risk awareness training for those staff handling personal information. In line with most other departments, the FC chose to utilise the on-line training module developed by the National School for Government. By the end of April 2010, some 860 staff in Scotland had successfully completed the training, leaving a small number of staff to complete the exercise. The ISMF is now working on plans for further, more advanced, training for those staff with specific information handling responsibilities.

In order to sustain and develop the progress made by the DHR, Cabinet Office has introduced the Information Assurance Maturity Model (IAMM) as a way of helping organisations understand their strengths and weaknesses in information handling, and to set out the path to improvement over the longer term. The FC undertook a self-assessment against the IAMM which confirmed the long suspected key areas of risk to be addressed were:

- Improvements to business continuity and disaster recovery systems within central shared services;
- Improvements to systems access controls;
- Further documentation of processes and procedures leading to less dependency on key staff.

Although this is of concern, in recent times we have suffered only one major systems failure. This occurred in December 2008 through a particular set of circumstances and we were able to recover the situation in five days despite the issues highlighted above.

Although our Information Services (IS) took immediate action to prevent a re-occurrence, further work is still required to address key areas of vulnerability. IS has now developed a longer term strategy to re-establish quality information services and technology. By the end of the financial year, we had made funds available to IS to start a significant investment programme in the ICT infrastructure to reduce the business risk from system failure. The work is described in the IS Infrastructure Proposal document, which overall has a 2-3 year incremental delivery timescale, subject to sufficient resources being available. New equipment recently purchased will allow IS to improve some of the more critical back-up and recovery arrangements as quickly as possible.

Further work is still required both within Scotland and the central services to establish an overall project plan encompassing all three of the key risk areas. This will be taken forward under the lead of Director Finance GB in his role as SIRO and as a member of the ICT Service Board.

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 2010-11 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 2009-10 by targeting land acquisition to enable expansion of new planting programme, 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 has been accredited under the Investors in People (IIP) accreditation scheme since 2000 and this is due for review in June 2010. IIP indicates to the general public and potential employees that the Forestry Commission is a high quality employer. Without this, our reputation with stakeholders could be damaged. There would also be practical costs and logistics involved in removing all indication of accreditation. Controls are in place to ensure appropriate steps will be taken to achieve accreditation with regular review by FC Scotland Management Board.

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

information assurance work has led to a limited opinion in respect of these items. Our action for dealing with this is covered under the paragraphs above headed Protecting Information in Government.

6. Significant Internal Control Problems

There were no significant problems to report

R McIntosh
Accountable Officer
28 July 2010

INDEPENDENT AUDITOR'S REPORT TO THE 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 2010 under the Public Finance and Accountability (Scotland) Act 2000. These comprise the Statement of Parliamentary Supply, Net Cash Requirement, Operating Cost Statement, Statement of Financial Position, the Cash Flow Statement and Statement of Changes in Taxpayers' Equity, the Statement of 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 the agency's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements and the part of the Remuneration Report to be audited are free from material misstatement, whether caused by fraud or error, and that in all material respects the expenditure and 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 2010 and of the net resource outturn, net cash requirement, net operating surplus, changes in taxpayers' equity, 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

Date **28 July 2010**

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

STATEMENT OF PARLIAMENTARY SUPPLY

SUMMARY OF RESOURCE OUTTURN 2009-10

	Note	Estimate			Outturn			2009-10	2008-09
		Gross Expenditure	A-in-A	Net Total	Gross Expenditure	A-in-A	Net Total	Net total outturn compared with Estimate saving/(excess)	Outturn**
		£000	£000	£000	£000	£000	£000	£000	£000
Request for resources		83,350	-	83,350	6,935	-	6,935	76,415	89,188
Total resources	4	83,350	-	83,350	6,935	-	6,935	76,415	89,188
Non-operating cost A-in-A		-	-	-	-	-	-	-	-

** This is the Outturn as reported on the UK GAAP basis as per the 2008-09 published accounts. The comparative cannot be restated as it must reflect the funding voted by the Scottish Government.

NET CASH REQUIREMENT 2009-10

	Note	Estimate	Outturn	2009-10	2008-09
		£000	£000	Net total outturn compared with Estimate saving/(excess) £000	Outturn £000
Net cash requirement	4	65,050	49,425	15,625	47,961

The £65,050 Estimate comprises the total funding voted from the Scottish Government. Of this Estimate, Forestry Commission Scotland drew down £51,000k during the year. The net outturn compared with funding drawn down was £1,575k.

The notes on pages 39 to 69 form part of these accounts

OPERATING COST STATEMENT

For the year ended 31 March 2010

		Staff Costs	Other Costs	2009-10 Income	2008-09 Restated
	Note	£000	£000	£000	£000
Administration costs:					
Staff costs	5	5,871			5,677
Other administration costs	6		3,604		3,820
Operating income	8			(148)	(235)
Programme costs:					
Programme costs	7		101,627		98,087
EU income	8			(2,090)	(2,255)
Other income	8			(3,327)	(3,607)
Gain on revaluation of biological assets				(93,371)	(116,248)
Totals		5,871	105,231	(98,936)	(14,761)
Net operating deficit / (surplus)				12,166	(14,761)

All income and expenditure are derived from continuing operations.

There have been no acquisitions during the year.

The notes on pages 39 to 69 form part of these accounts

STATEMENT OF FINANCIAL POSITION

as at 31 March 2010

		31 March 2010	1 April 2009 Restated	1 April 2008 Restated
	Note	£000	£000	£000
Non-current assets				
Property, plant and equipment	10	585,020	485,465	430,922
Intangible assets		-	-	167
Biological assets	11	462,725	394,586	297,936
Trade and other receivables	15	15	18	25
Total non-current assets		1,047,760	880,069	729,050
Current assets				
Non-current assets held for sale	12	7,999	2,986	-
Inventories	14	13	15	19
Trade and other receivables	15	1,099	1,688	1,898
Cash and cash equivalents	16	1,575	14,539	3,402
Total current assets		10,686	19,228	5,319
Total assets		1,058,446	899,297	734,369
Current liabilities				
Provisions	18	(24)	(12)	(19)
Trade and other payables	17	(2,952)	(18,289)	(4,894)
Total current liabilities		(2,976)	(18,301)	(4,913)
Non current assets plus net current assets		1,055,470	880,996	729,456
Non current liabilities				
Provisions	18	(2)	(1)	(12)
Total non-current liabilities		(2)	(1)	(12)
Assets less liabilities		1,055,468	880,995	729,444
Taxpayers' equity				
General fund	19	683,659	617,130	519,316
Revaluation reserve	19	371,534	263,832	210,128
Donated Asset Reserve	19	275	33	-
Total taxpayers' equity		1,055,468	880,995	729,444

R McIntosh
Accountable Officer
28 July 2010

The notes on pages 39 to 69 form part of these accounts

CASH FLOW STATEMENT

For the year ended 31 March 2010

	2009-10	2008-09
Note	£000	Restated £000
Cash flows from operating activities		
Net operating cost	(12,166)	14,761
Adjustments for non-cash transactions	20 24,037	27,681
Forest Enterprise Scotland capital and non-cash adjustments	7 (331)	4,454
Timing between accrual and cash VAT	19a 8	25
Non-cash inter-country transfers	19a (1)	2
Decrease in inventories	14 2	4
Decrease in trade and other receivables	15 592	217
(Decrease)/increase in trade and other payables	17 (15,337)	13,395
Less movements in trade and other payables relating to items not passing through operating cost statement	12,964	(11,137)
Use of provisions	18 (17)	(20)
Net cash inflow from operating activities	9,751	49,382
Cash flows from investing activities		
Purchase of property, plant and equipment	10 (1,987)	(9,810)
Proceeds of disposal of property, plant and equipment	14,573	12,304
Book value of felled timber	11 18,263	16,369
Gain on revaluation of biological assets	11 (93,371)	(116,248)
Disposal of biological assets	3,100	-
Net cash outflow from investing activities	(59,422)	(97,385)
Cash flows from financing activities		
From the Scottish Consolidated Fund	51,000	62,500
Donations towards capital expenditure	19c 246	42
Net financing	51,246	62,542
Net increase / (decrease) in cash and cash equivalents in the period before adjustment for receipts and payments to the Consolidated Fund	1,575	14,539
Payment of amounts due to the Scottish Consolidated Fund	(14,539)	(3,402)
Net increase / (decrease) in cash and cash equivalents in the period after adjustment for receipts and payments to the Consolidated Fund	(12,964)	11,137
Cash and cash equivalents at the beginning of the period	14,539	3,402
Cash and cash equivalents at the end of the period	1,575	14,539

The notes on pages 39 to 69 form part of these accounts

STATEMENT OF CHANGES IN TAXPAYER'S EQUITY

For the year ended 31 March 2010

	Note	General Fund £000	Revaluation Reserve £000	Donated Asset Reserve £000	Total £000
Balance at 31 March 2008		519,481	209,963	-	729,444
Changes in accounting policy		(165)	165	-	-
Restated balance at 1 April 2009		519,316	210,128	-	729,444
Changes in taxpayers' equity for 2008-09					
Net operating surplus for the year		14,761	-	-	14,761
Net gain/(loss) on revaluation of property, plant and equipment	19	-	53,704	(1)	53,703
Receipt of donated assets	19	-	-	42	42
Non-cash charges - cost of capital	19	30,551	-	-	30,551
Release of reserves to the Operating Cost Statement		-	-	(8)	(8)
Non-cash charges - auditor's remuneration	19	42	-	-	42
Non-cash charges - timing between accrual and cash VAT	19	25	-	-	25
Non-cash charges - inter-country transfers	19	2	-	-	2
Transfer of property, plant and equipment from/to other forestry bodies	19	(13)	-	-	(13)
Transfer of partnership lease from Forest Enterprise Scotland		31	-	-	31
Forest Enterprise Scotland capital and non-cash adjustments		4,454	-	-	4,454
Total recognised income and expense for 2008-09		49,853	53,704	33	103,590
Net parliamentary funding		62,500	-	-	62,500
Amounts issued from the Scottish Consolidated Fund for supply but not spent at year end		(14,539)	-	-	(14,539)
Balance at 31 March 2009		617,130	263,832	33	880,995
Balance at 31 March 2009		618,315	262,647	33	880,995
Changes in accounting policy		(1,185)	1,185	-	-
Restated balance at 1 April 2009		617,130	263,832	33	880,995
Changes in taxpayers' equity for 2009-10					
Net operating cost for the year		(12,166)	-	-	(12,166)
Net gain/(loss) on revaluation of property, plant and equipment	19	-	107,536	4	107,540
Net gain/(loss) on revaluation of NCAHFS	19	-	(156)	-	(156)
Receipt of donated assets	19	-	-	246	246
Realised revaluation reserve	19	2	(2)	-	-
Release of reserves to the operating cost statement	19	-	324	(8)	316
Non-cash charges - cost of capital	19	29,551	-	-	29,551
Non-cash charges - auditor's remuneration	19	46	-	-	46
Non-cash charges - timing between accrual and cash VAT	19	8	-	-	8
Non-cash charges - inter-country transfers	19	(1)	-	-	(1)
Transfer of property, plant and equipment from/to other forestry bodies	19	(5)	-	-	(5)
Forest Enterprise Scotland capital and non-cash adjustments		(331)	-	-	(331)
Total recognised income and expense for 2009-10		17,104	107,702	242	125,048
Net parliamentary funding		51,000	-	-	51,000
Amounts issued from the Scottish Consolidated Fund for supply but not spent at year end		(1,575)	-	-	(1,575)
Balance at 31 March 2010		683,659	371,534	275	1,055,468

The notes on pages 39 to 69 form part of these accounts

STATEMENT OF OPERATING COSTS BY DEPARTMENTAL STRATEGIC OBJECTIVES

For the year ended 31 March 2010

	2009-10				2008-09			
	Strategic Objective 1 £000	Strategic Objective 2 £000	Strategic Objective 3 £000	Total £000	Strategic Objective 1 £000	Strategic Objective 2 £000	Strategic Objective 3 £000	Total £000
Gross expenditure	19,044	61,028	31,030	111,102	28,229	35,844	43,511	107,584
Income	(16,819)	(54,415)	(27,702)	(98,936)	(31,125)	(41,132)	(50,088)	(122,345)
Net expenditure / (income)	2,225	6,613	3,328	12,166	(2,896)	(5,288)	(6,577)	(14,761)

Strategic Objective 1: Improved health and well-being of people and their communities

Strategic Objective 2: Competitive and innovative businesses contributing to the growth of the Scottish economy

Strategic Objective 3: High quality, robust and adaptable environment

See note 21 for an explanation of apportionment across objectives.

The notes on pages 39 to 69 form part of these accounts

NOTES TO THE ACCOUNTS

NOTE 1 STATEMENT OF ACCOUNTING POLICIES

These financial statements have been prepared on a going concern basis and in accordance with the 2009-10 *Government Financial Reporting Manual (FReM)* issued by HM Treasury. The accounting policies contained in the *FReM* apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context. Where the *FReM* permits a choice of accounting policy, the accounting policy which is 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. The particular policies selected by Forestry Commission Scotland are described below. They have been applied consistently in dealing with items considered material in relation to the accounts.

In addition to the primary statements prepared under IFRS, the *FReM* also requires Forestry Commission Scotland to prepare two additional primary statements. The *Statement of Parliamentary Supply* (or equivalent for Forestry Commission Scotland, which is funded by the Scottish Government) and supporting notes show outturn against Estimate in terms of the net resource requirement and the net cash requirement. For the purposes of these accounts, the title "Summary of Resource Outturn" has been used for this primary statement. The other primary statement, the *Statement of Operating Cost by Departmental Strategic Objectives* and supporting notes analyse the Forestry Commission Scotland' income and expenditure by the objectives agreed with Ministers.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 2.

1.1 Accounting convention

These accounts have been prepared under the historical cost convention modified to account for the revaluation of property, plant and equipment, inventories and available-for-sale financial assets, and derivative financial assets and derivative financial liabilities at fair value through profit or loss.

1.2 Administrative and programme expenditure

The Operating Cost Statement is analysed between administration and programme income and expenditure. Administration costs reflect the costs of running Forestry Commission Scotland, together with associated operating income, and programme costs include costs relating to managing the national forest estate.

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 Employee benefits

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 dependant's benefits. Forestry Commission Scotland accounts for the PCSPS scheme as a defined contribution plan and recognises the expected cost of these elements on a systematic and rational basis over the period during which it benefits from employee's 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. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

Performance pay

As at 31 March 2008, Forestry Commission Scotland recognised a liability and an expense for performance-related pay. Non-consolidated, non-pensionable performance payments are made to staff whose work performance was assessed as being a "Top Performer" in accordance with the Commission's performance management system. The non-consolidated performance payment amount is at a standard amount depending on the employee's grade and is pro rated for part-time staff. Except for staff in the Senior Staff Grade, the unpaid non-consolidated performance payment system ceased with effect from the staff reporting year ending on 31 March 2009.

Short-term employee benefits

A liability and an expense is recognised for holiday days, holiday pay and other short-term benefits when the employees render service that increases their entitlement to these benefits. As a result an accrual has been made for holidays earned but not yet taken.

1.5 Contingent liabilities

Forestry Commission Scotland discloses contingent liabilities in accordance with IAS 37. It also discloses for parliamentary reporting and accountability purposes certain statutory and non-statutory contingent liabilities where the likelihood of economic benefits is remote, but which have been reported to the Scottish Government in accordance with the requirements of HM Treasury's Managing Public Money.

Where the time value of money is material, contingent liabilities required to be disclosed under IAS 37 are stated at discounted amounts. Amounts reported to the Scottish Government are separately noted. Contingent liabilities that are not required to be disclosed by IAS 37 are stated at the amounts reported to the Scottish Government.

1.6 Property, plant and equipment

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

Tangible fixed assets were revalued annually as at 31 March. With the agreement of HM Treasury, from 1 April 2008 onward, revaluations shall take place on 1 April.

Forest estate

Forested areas comprise land (including land improvements) and timber stocks. Elements of timber stock fall within the definition of Biological Assets as set out in IAS 41 (Agriculture) and details of the accounting policy are set out below. One requirement of IAS 41 is to separately account and value both land and the biological asset growing on it. As a result, the Forest Estate consists of all woodland areas and timber falling outwith the definition of a biological asset. Elements of the valuation and therefore the accounting for these assets rely on estimation techniques and these are detailed under note 2.

Forest estate land

Forest Estate land is shown at fair value and excludes the value attributable to any trees growing on that land. External professional valuers undertake a full external professional valuation of the Forest Estate Land at five yearly intervals. Following a public procurement exercise in 2007, Bidwells, Chartered Surveyors were appointed as the Commission's valuers as from the full valuation as at 1 April 2008. In accordance with RICS Appraisal and Valuation Standards (the 'Red Book'), the Forest Estate land is valued under the Existing Use or Fair Value models as appropriate for obtaining a fair value. In the intervening years between professional valuations, custom indices are used to restate land values. The indices are provided by Bidwells who are contracted to undertake the work until 2012.

Trees Not Apportioned to Biological Assets

Trees falling outwith the definition of Biological Assets is shown at fair value. External professional valuers undertake a full external professional valuation at five yearly intervals. As detailed above the valuation is carried out by Bidwells, Chartered Surveyors in accordance with RICS Appraisal and Valuation Standards (the 'Red Book') under the Existing Use or Fair Value models as appropriate for obtaining a fair value. In the intervening years between professional valuations, custom indices are used to restate land values. The indices are provided by Bidwells who are contracted to undertake the work until 2012.

Non-forest land

Non-Forest Land is shown at fair value. Professionally qualified staff employed by Forestry Commission Scotland undertake a full revaluation of non-forest land at five yearly intervals coinciding with that for the Forest Estate (1 April). They follow the principles set out in the RICS Red Book and value on the basis of Open Market Value, Existing Use Value, Depreciated Replacement Cost or Discounted Cash Flow as appropriate under the RICS Standards for determining fair value. The work of internal staff is reviewed by Bidwells. Until 31 March 2009 unequipped agricultural land indices provided by the District Valuer were used to restate values between full revaluations. Production of the indices ceased during 2009 and values for 2009-10 are restated by professionally qualified staff employed by Forestry Commission Scotland.

Biological assets

Timber growing on Forest Estate Land is categorised as Biological Asset Timber or Other Timber depending on the strategic objective the land is held to meet. Trees growing on land that is primarily held in support of the Scottish Government's objective of making a positive contribution to a thriving and sustainable Scottish economy are classed as Biological Assets under IAS 41 (Agriculture). Other trees are classed as Other Timber and are outwith the scope of IAS 41.

Biological assets include standing trees and are measured at fair value less estimated point-of-sale costs, except where fair value cannot be measured reliably. External professional valuers undertake a full external professional valuation at five yearly intervals. As detailed above the valuation is carried out by Bidwells, Chartered Surveyors in accordance with RICS Appraisal and Valuation Standards (the 'Red Book') under the Existing Use or Fair Value models as appropriate for obtaining a fair value. In the intervening years between professional valuations, custom indices are used to restate land values. The indices are provided by Bidwells who are contracted to undertake the work until 2012.

Revaluation gains and losses are recognised in the Operating Cost Statement in the year of revaluation.

Dwellings and other buildings

Dwellings and other buildings are shown at fair value less accumulated depreciation. The threshold for capitalisation of buildings is £10,000.

Professionally qualified staff employed by Forestry Commission Scotland undertake a full revaluation of built assets at five yearly intervals coinciding with that for the Forest Estate and Other Land (1 April). They follow the principles set out in the RICS Red Book and value on the basis of Open Market Value, Existing Use Value, Depreciated Replacement Cost or Discounted Cash Flow as appropriate under the RICS Standards for determining fair value. Suitably qualified external valuers review the work of internal professional valuers. A full valuation took place on 1 April 2008 and Bidwells, Chartered Surveyors, reviewed this.

The value of Dwellings is restated annually between full revaluations using indices provided by the District Valuer. Until 31 March 2009, Other Buildings were restated annually between full revaluations using indices provided by the District Valuer. Production of the indices for Other Buildings ceased in 2009. From 1 April 2009 the values of Other Buildings are restated by professionally qualified staff employed by the Forestry Commission.

Expenditure on infrastructure

To maximise the environmental, social and economic benefits of the Forest Estate, Other Land, Biological Asset Timber and Other Timber, the Commission improves and develops access and services by adding to the infrastructure on its sites. Infrastructure includes new roads, bridges, culverts etc. Costs in respect of infrastructure works are expensed as they occur. The Commission takes the view that the professional

valuations of its land and timber properly recognise the contribution that infrastructure items make to land values. It also considers that the annual revaluation by indexation reflects improvements made through new infrastructure.

Subsequent expenditure

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to Forestry Commission Scotland and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the operating cost statement during the financial period in which they are incurred.

Non-current assets held for sale

Non-current assets are reviewed regularly to ensure that 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 assets, including surplus properties, take into account a number of factors including the social and environmental effects as well as marketability. Non-current assets are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale within twelve months of the reporting date is considered to be highly probable. Non-current assets held for sale are stated at the lower of carrying amount and fair value less costs to sell.

Plant and machinery

Forestry vehicles, machinery and equipment are shown at fair value less accumulated depreciation. Assets are revalued every five years by professionally qualified staff employed by Forestry Commission Scotland. In the intervening years between professional valuations, values are restated using indices provided by the Office for National Statistics. The normal threshold for capitalisation of plant and machinery is £3,000.

Information technology

Information technology is shown at fair value less subsequent depreciation. Information technology (IT) 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 the costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Assets under construction are transferred to the appropriate property, plant and equipment category when completed and ready for use.

Revaluation reserve

Increases in the carrying amount arising on revaluation of property, plant and equipment are credited to the revaluation reserve in taxpayers' equity. Decreases that offset previous increases of the same asset are charged against the revaluation reserve directly in equity; all other decreases are charged to the operating cost statement. Each year the difference between depreciation based on the revalued carrying amount of the asset charged to the operating cost statement and depreciation based on the asset's original cost is transferred from 'revaluation reserve' to 'general fund'.

1.7 Depreciation

Land (forest estate and non-forest land) together with the value of trees not are not depreciated.

Assets under construction are not depreciated until the asset under construction is capable of operating in the manner intended by management.

Depreciation is provided on all other property, plant and equipment 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:

Land held under a finance lease	- unexpired term of the lease
Lease premium	- unexpired term of the lease
Freehold buildings	- over 1 to 60 years
Buildings held under a finance lease	- lesser of unexpired term of lease and 60 years
Plant and machinery	- over 3 to 16 years
Plant and machinery held under a finance lease	- lesser of unexpired term of lease and 16 years
Information technology	- over 4 to 20 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within the operating cost statement.

When revalued assets are sold, the amounts included in the revaluation reserve are transferred to the general fund.

1.8 Land and buildings leased to customers

Assets leased to external parties under an operating lease are capitalised under the appropriate accounting policy. Operating lease income is accounted for on a straight line basis with any rental increases recognised during the period to which they relate.

1.9 Government grants receivable

Grants from the government are recognised at their fair value when there is reasonable assurance that the grant will be received and Forestry Commission Scotland will comply with all attached conditions.

Government grants in respect of capital expenditure are credited to a government grant reserve. Subsequent revaluations are also taken to this reserve. Each year, an amount equal to the depreciation charge on the asset is released from the government grant reserve to the operating cost statement. Where the grant contributes only part of the cost of the fixed asset, only that proportion is released from the government grant reserve. Grants of a revenue nature are credited to income so as to match them with the expenditure to which they relate.

1.10 Subsidiaries, associates and joint ventures

Investments held in subsidiaries, associates or joint ventures that are outside the departmental boundary and where Forestry Commission Scotland does not exercise in-year budgetary control are accounted for in accordance with paragraph 4.2.4 of the FReM. Where such an investment is in another public sector entity it is reported at historical cost less any impairment. Where an investment is in another entity it is accounted for following the requirements of IAS 39 (see financial asset policy below).

1.11 Inventories

Consumable materials and supplies are stated at the lower of current cost and net realisable value. Net realisable value is based on estimated selling prices, less further costs expected to be incurred to completion and disposal.

1.12 Revenue recognition

Income comprises the fair value of the consideration received or receivable from forestry and related activities. Revenue is shown net of value-added tax, returns, rebates and discounts.

Forestry Commission Scotland recognises revenue when the amount of revenue can be reliably measured and it is probable that future economic benefits will flow to it.

1.13 Leases

Where substantially all the risk 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. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased asset and the present value of the minimum lease payments. A corresponding debt is recorded to the lessor represented by the minimum lease payments over the unexpired term of the lease. Where it is not possible to determine the interest rate implicit in the lease, discounting is on the basis of HM Treasury's rate of 3.5%.

Assets held under Finance Lease are depreciated over the shorter of the useful life of the asset and the 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 revaluations are those set out in 1.6 above.

Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in other payables. The interest element of the finance cost is charged to the operating cost statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Costs (net of any incentives received from the lessor) in respect of operating leases (any lease other than a Finance Lease) are charged on a straight-line basis over the lease term.

1.14 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 finance statements for grant offers made but not yet approved for payment, although they are quantified in note 24.

1.15 European Union (EU) funding

The Forestry Commission acts under delegated authority from the Scottish Government to administer third party grants paid from Objective 1 and Woodland Grant Scheme payments made under the national European Agricultural Guarantee and Guidance Fund and the European Agricultural Fund for Rural Development. Once grants become recognised, contributions from the EU are claimed. If grants are subsequently recovered because of failure to fulfil the condition of the relevant woodland grant scheme, the amount of co-financing may be repayable to the EU.

1.16 Provisions

Forestry Commission Scotland provides for present legal and constructive obligations which are of uncertain timing or amount at the reporting 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. The increase in the provision due to passage of time is recognised in the operating cost statement.

1.17 Value Added Tax (VAT)

The Forestry Commission is registered for VAT. In order to comply with the 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 receivable or payable in the Statement of Financial Position. Irrecoverable VAT is charged to the operating cost statement in the year in which it is incurred.

1.18 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker responsible for allocating resources and assessing performance of the operating segments has been identified as the FC Scotland Management Board.

1.19 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the Forestry Commission Scotland operates ('the functional currency'). The functional currency and the presentational currency of the financial statements is pounds sterling.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the operating cost statement.

1.20 Intangible assets

Intangible assets are valued initially at cost and subsequently at fair value using the revaluation model.

Where an active market does not exist, income generating assets are valued at the lower of depreciated replacement cost and value in use. Non income generating assets are carried at depreciated replacement cost. These valuation methods are considered to be a proxy for fair value.

Acquired computer software licences are initially capitalised on the basis of the costs incurred to acquire and bring to use the specific software and subsequently revalued to depreciated replacement cost. Acquired computer software licences are amortised over their estimated useful lives of five to seven years.

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Forestry Commission Scotland are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use or sell it;
- there is an ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

Directly attributable costs capitalised as part of the software product include the software development employee costs and an appropriate portion of relevant overheads.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Computer software development costs recognised as assets are subsequently revalued to depreciated replacement cost and amortised over their estimated useful lives of five to seven years.

1.21 Impairment of non-financial assets

Assets that are subject to depreciation and amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Where an asset is

not held for the purpose of generating cash flows, value in use is assumed to equal the cost of replacing the service potential provided by the asset, unless there has been a reduction in service potential. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets that suffer impairment are reviewed for possible reversal of the impairment at each reporting date.

1.22 Financial assets

Classification

The 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. The Forestry Commission 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 reporting date. These are classified as non-current assets. Loans and receivables comprise trade and other receivables and cash and cash equivalents in the Statement of Financial Position.

(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 reporting date. Available for sale financial assets comprise investments.

Recognition and measurement

Financial assets are recognised when the Forestry Commission 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 the Forestry Commission has transferred substantially all risks and rewards of ownership.

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

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

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

(b) Loans and receivables

Loans and receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of loans and receivables is established when there is objective evidence that the Forestry Commission 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'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), the Forestry Commission 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 reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the operating cost statement. Impairment losses recognised in the operating cost statement on equity instruments are not reversed through the income statement.

1.23 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 Statement of Financial Position.

1.24 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. The Forestry Commission 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 reporting date. These are classified as non-current liabilities. The Forestry Commission's other financial liabilities comprise trade and other payables in the Statement of Financial Position.

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 Statement of Financial Position when it is extinguished, that is when the obligation is discharged, cancelled or expired.

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

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

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

(b) Other financial liabilities

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

1.25 Prior Year Restatement

From 2009-10, expenditure relating to forest roads and restocking is disclosed in the Forestry Commission Scotland Operating Cost Statement rather than the Forest Enterprise Scotland Income and Expenditure Account.

Forestry Commission Scotland have also received permission from Treasury to recognise new planting in the Operating Cost Statement. Previously, this was capitalised and formed part of the Biological Asset balance.

In accordance with IAS 8, 2008-09 and 2007-08 comparatives have been adjusted to account for this change in accounting methodology. A reconciliation of restated balances is provided in Note 30.

1.26 Effective in these Financial Statements

All International Financial Reporting Standards, Interpretations and Amendments effective at 31 March 2010 have been adopted in these statements, taking account of the specific interpretations and adaptations included within the FReM.

1.27 Effective for future Financial Years

The following IFRSs, IFRIC Interpretations and Amendments, applicable to Forestry Commission Scotland have been issued but are not yet effective and have not been adopted early.

IAS 24 Related Party Transactions (effective 1 January 2011) – The amendment exempts full disclosure of transactions with state-controlled entities and is not expected to impact the FReM's current exemption. IAS 24 also extends the definition of a related party to include relationships where joint control exists.

IFRS 9 Financial Instruments (effective 1 January 2013) – IFRS 9 replaces IAS 39 and introduces new requirements for the classification and measurement of financial assets. Further proposals are to be introduced during 2010 and the Commission will undertake an assessment of the impact of IFRS 9 once these are known.

From 2010-11, the FReM includes other changes including removal of the Cost of Capital. This affects the charge to the Operating Cost Statement and the Statement of Changes in Taxpayer's Equity (where the sum is reversed). For 2009-10 the charge was £29,551,000. The net deficit of Forest Enterprise Scotland includes a charge of £1,670,000.

NOTE 2 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Critical accounting judgements and key sources of estimation uncertainty

In the application of Forestry Commission Scotland's accounting policies, judgements, estimates and assumptions need to be made about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying the accounting policies

The following are the critical judgements and estimates that have been made in the process of applying Forestry Commission Scotland's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

Valuation of the Forest Estate and Biological Assets

Management takes that it would not be cost effective to carry out a five-yearly external professional valuation of all areas of woodland, including those with biological assets. Following advice from its professionally qualified statisticians, management considers that a reasonable valuation can be derived by carrying out on-site valuations of a random sample of properties representing between 8% and 10% of the Forest Estate and extrapolating these for the whole.

In reaching their sample valuations, it has been agreed by the external valuers and management that the most appropriate market factors to consider are location, species, age and quality (Yield Class) of the trees. It would not be cost effective to carry out each valuation based on the specific combination on the site. Management, in consultation with the external valuers, considers that valuations based on groups of factors provide robust valuations. The groups used are Location (Forest District), Species (Conifer crop or Broadleaved crop), Age (in 5-yearly age bands) and quality (High, Medium and Low Yield Classes).

Management also considers that the most appropriate market-based evidence of value is derived from the market for the sale of woodlands and forests over 50 ha in area. The external valuers subsequently apportion values to land and timber, including biological assets. As required under IAS 41 the fair value of biological assets is reduced by estimated costs to the point of sale. These costs are estimated at 5% and reflect the costs of selling the woodland or forest.

Other Land

Other Land primarily includes specialist land holdings for which there are no or limited external markets. Management considers that the Commission's internal professionally qualified staff are best placed to value this land. To ensure compliance with RICS valuation standards, external professional valuers review the work of the internal valuers for consistency and appropriateness. Where appropriate, management ensures that external professional valuations are obtained where active markets operate.

Dwellings and Other Buildings

Other Buildings primarily includes specialist buildings held for operational activities and for which there are no active external markets. Management considers that the Commission's internal professionally qualified staff are best placed to value these buildings. To ensure compliance with RICS valuation standards, external professional valuers review the work of the internal valuers for consistency and appropriateness. Where appropriate, management ensures that external professional valuations of Dwellings and Other Buildings are obtained where active markets operate.

Biological Assets

In applying IAS 41 (Agriculture) management considered the detailed criteria for classifying forestry activities as Agricultural. This determined that not all forestry activity carried out by Forestry Commission Scotland could be regarded as Agriculture under the standard. It is considered that woodlands and forests that are primarily held and managed to meet the social and environmental objectives set out in "A Strategy for Scotland's Trees, Woods and Forests" do not meet the criteria for agricultural activity.

Management considers that it would not be cost effective to carry out a comprehensive analysis of the estate to determine whether areas are primarily held and managed to meet social and environmental objectives. It judges that areas included within its forecasts of commercial sales production are wholly attributable to Agricultural activity under IAS 41. Areas outwith the forecasts are judged to fall outside the scope of IAS 41.

NOTE 3 FIRST TIME ADOPTION OF IFRS

	General Fund £000	Revaluation Reserve £000	Donated Asset Reserve £000	Total Reserves £000
Taxpayers' equity at 1 April 2008 under UK GAAP	376,940	382,637	-	759,577
Adjustments for:				
IAS 19 Pay in lieu of untaken leave accrual 2007-08	(282)	-	-	(282)
IAS 19 Performance related pay bonus accrual 2007-08	(51)	-	-	(51)
IAS 5 Non-current assets held for sale	-	(7,652)	-	(7,652)
IAS 17 Leases	1,889	(8,356)	-	(6,467)
IAS 41 Agriculture	140,985	(156,666)	-	(15,681)
Taxpayers' equity at 1 April 2008 under IFRS	519,481	209,963	-	729,444
Taxpayers' equity at 31 March 2009 under UK GAAP	376,185	539,671	33	915,889
Adjustments for:				
1 April 2008 IFRS adjustments	142,541	(172,674)	-	(30,133)
IAS 19 Pay in lieu of untaken leave accrual increase	(53)	-	-	(53)
IAS 19 Performance related pay bonus accrual decrease	27	-	-	27
IAS 5 Non-current assets held for sale	(243)	-	-	(243)
IAS 17 Leases	(21)	-	-	(21)
IAS 41	116,248	(104,350)	-	11,898
Adjustment for timber harvested	(16,369)	-	-	(16,369)
Taxpayers' equity at 1 April 2009 under IFRS	618,315	262,647	33	880,995
				£000
Net operating cost for 2008-09 under UK GAAP				(85,501)
Adjustments for:				
IAS 19 Pay in lieu of untaken leave accrual 2007-08 reversal				282
IAS 19 Pay in lieu of untaken leave accrual 2008-09				(335)
IAS 19 Performance related pay bonus accrual 2007-08 reversal				51
IAS 19 Performance related pay bonus accrual 2008-09				(24)
IAS 5 Non-current assets held for sale				(243)
IAS 17 Leases				(53)
IAS 41 Agriculture				116,248
Adjustment for timber harvested				(16,369)
Decrease in Forest Enterprise Scotland funding				219
Notional cost of capital decrease				1,506
Net operating surplus for 2008-09 under IFRS				15,781

No cash equivalents were held by the Department at 1 April 2008 or 31 March 2009.

2008-09 and 2007-08 balances have subsequently been restated due to the change in accounting methodology surrounding forest roads, restocking and new planting expenditure. Note 30 provides a reconciliation of the restated balances.

IFRS adjustments rationale:

IAS 19 Pay in lieu of untaken leave accrual 2007-08 and 2008-09 - in accordance with IAS 19 Employee Benefits, accruals have been made in respect of carried forward employee annual leave at 31 March 2008 and 31 March 2009.

IAS 19 Performance related pay bonus accrual 2007-08 and 2008-09 - in accordance with IAS 19 Employee Benefits, accruals have been made in respect of unpaid performance related pay bonuses for the performance year at 31 March 2008 and 31 March 2009.

IAS 17 Leases – Re classification of finance leases for land – in accordance with IAS 17 Leases, land leases formerly classed as Finance have been re classified as operating. The carrying value of leased land has been deducted from the forest estate and the lease creditor value has also been adjusted.

Leased land under a partnership agreement with forest holidays has been re classified and moved to other land from Forest Enterprise Scotland accounts.

IFRS 5 Non-current assets held for sale and discontinued operations - in accordance with IFRS 5 assets within Forest Estate, Biological assets and other land have been identified as held for sale within the 12 months to 31 March 2010. Revaluation Adjustments have also been made to account for these assets.

IAS 41 Agriculture – Adoption of IAS 41 Agriculture 2007-08 and 2008-09 - in accordance with IAS 41 Agriculture, adjustments have been made to identify biological assets and re classify from the forest estate.

Adjustment for value of timber harvested 2008-09 – timber fellings have been re classified and adjusted at 31 March 2009 as follows:

Fellings from timber classified as biological assets £16,368,610.

Notional cost of capital – the notional cost of capital has been recalculated based on IFRS net assets at 31 March 2009.

NOTE 4 RECONCILIATION OF NET RESOURCE OUTTURN TO NET CASH REQUIREMENT

	Estimate £000	Outturn £000	Net total outturn compared with Estimate: saving/(excess) £000
Total operating resources	78,550	12,166	66,384
Capital:			
Acquisition of property, plant and equipment and intangible assets	19,800	6,619	13,181
Proceeds of disposal of property, plant and equipment and intangible assets	(15,000)	(14,946)	(54)
Gain/loss on disposal of property, plant and equipment	-	6,196	(6,196)
Gain/loss on disposal of biological assets	-	(3,100)	3,100
Total operating and capital resources	83,350	6,935	76,415
Donations towards capital expenditure	-	(246)	246
Accruals adjustments:			
Non-cash items	(15,100)	44,875	(59,975)
Changes in working capital other than cash	-	1,778	(1,778)
Use of provision	-	17	(17)
Other adjustments:			
Adjustment of FE net deficit to financing	(3,200)	(3,927)	727
Timing between accrual and cash VAT	-	(8)	8
Non-cash inter-country transfers	-	1	(1)
Net cash requirement	65,050	49,425	15,625

NOTE 5 STAFF NUMBERS AND RELATED COSTS

	2009-10			2008-09
	Total	Permanently employed	Others	Total
		staff		
£000	£000	£000	£000	
Wages and salaries	4,678	4,678	-	4,476
Social security costs	347	347	-	341
Other pension costs	846	846	-	860
Total costs	5,871	5,871	-	5,677

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

For 2009-10, employers' contributions of £852,000 were payable to the PCSPS (2008-09 £849,000) at one of four rates in the range 16.7% to 24.3% of pensionable pay, based on salary bands. The Scheme Actuary reviews employer contributions usually every four years following a full scheme valuation. From 2010-11, the rates will be in the range 16.7% to 24.3%. The contribution rates are set to meet the cost of the benefits accruing during 2009-10 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 £2,400 were paid to one or more of the 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 £200, 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 or 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.

No individuals retired early on ill health grounds; the total additional accrued pension liabilities in the year amounted to £nil (2008-09: £2,612).

Average number of persons employed

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

Objective	2009-10			2008-09
	Permanently employed staff	Others	Total	Total
	Number	Number	Number	Number
Improved health and well-being of people and their communities	37	1	38	42
Competitive and innovative businesses contributing to the growth of the Scottish economy	53	1	54	47
High quality, robust and adaptable environment	56	2	58	56
Total	146	4	150	145

Benefits in kind are provided under the following schemes:

- (i) Advances of salary for house purchase
- (iii) Advances of salary for purchase of public transport and car park season tickets
- (iv) Advances of salary for purchase of sports/health club membership
- (v) Advances of salary for purchase of IT and sports/health equipment, including bicycles.

(vi) Car provision for employees scheme.

Each scheme is subject to conditions and financial limits.

Forestry Commission Scotland had house purchase loans totalling £18,000 outstanding at 31 March 2010 relating to 1 employee (2008-09: £21,000 relating to 2 employees). Such loans are unsecured, interest free and typically repayable over 10 years, with an optional 2 year deferral period.

NOTE 6 OTHER ADMINISTRATION COSTS

Administration costs in year can be analysed as follows:-

		2009-10	2008-09
	Note	£000	£000
Shared central services		1,825	1,907
Use of provision	18	17	20
Other administration expenditure		1,554	1,663
		<u>3,396</u>	<u>3,590</u>
Non-cash costs:			
Cost of capital		-	43
Auditors remuneration and expenses – audit work	20	46	42
Depreciation of property, plant and equipment	20	132	130
Amortisation of intangible assets	20	-	2
Write-off of property, plant and equipment	10	-	9
Impairment of property, plant and equipment	10	-	2
Provisions -			
Provided in year	18	31	1
Unwinding of discount	18	(1)	1
		<u>208</u>	<u>230</u>
Total non-staff administration costs		<u>3,604</u>	<u>3,820</u>

Administration expenditure includes the cost of shared central service provided to Forestry Commission 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 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.

NOTE 7 PROGRAMME COSTS

Programme costs in year can be analysed as follows:-

	2009-10	2008-09 Restated
	£000	£000
Support for forestry and the rural economy, including grants paid to private woodland owners	10,249	9,308
Grants paid to private woodland owners from EU receipts	2,090	2,255
Forestry development programmes	8,937	7,019
Restocking	10,061	10,039
Roads	13,127	12,272
New planting	1,235	1,020
Other programme costs	281	306
Sub total	45,980	42,219
Non-cash costs:		
Book value of felled timber	18,263	16,369
Cost of capital	29,551	30,507
Sub total	93,794	89,095
Forest Enterprise Scotland	7,833	8,992
Programme Expenditure	101,627	98,087

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 is also involved in recreation, conservation and heritage activities and the net expenditure on these activities is also financed by the Forestry Commission Scotland.

Forestry Commission Scotland's programme costs include Forest Enterprise Scotland's deficit of £7,833,000 (2008-09 restated: £8,992,000). After adjusting for capital and non-cash transactions of £332,000 (2008-09: £4,454,000), Forest Enterprise received cash funding of £8,164,000 (2008-09: £4,538,000). 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 £3,927,000 (2008-09: £6,322,000).

	2009-10	2008-09 Restated
	£000	£000
Capital		
Net capital	(4,259)	(1,868)
Accruals adjustments		
Cost of capital	1,670	1,518
Non-cash items	2,110	4,487
Changes in working capital, including cash	(382)	329
Government grant towards capital expenditure	620	320
Donations towards capital expenditure	102	-
Increase/(decrease) in provisions	(193)	(332)
Total cash adjustments	(332)	4,454
Adjust supply expenditure for net capital	4,259	1,868
Adjustment of FE deficit to financing	3,927	6,322

NOTE 8 INCOME

	2009-10	2008-09
	£000	£000
Operating income	148	235
Administrative income	148	235
Planting grant co-financing from EU	2,090	2,255
Gain on sale of estate land – non-cash	2,927	2,829
Gain on revaluation of biological assets	93,371	116,248
Other income	400	778
Programme income	98,788	122,110
Total	98,936	122,345

NOTE 9 ANALYSIS OF NET OPERATING COST BY SPENDING BODY

	Estimate	2009-10	2008-09
	£000	Outturn	Outturn
	£000	£000	£000
Forestry Commission Scotland	78,550	12,166	(14,761)
Net operating surplus	78,550	12,166	(14,761)

NOTE 10 PROPERTY, PLANT AND EQUIPMENT

	Forest Estate £000	Land £000	Buildings £000	IT £000	Assets Under Construction £000	Total £000
Valuation:						
At 1 April 2009	394,497	87,949	2,815	668	-	485,929
Additions	310	1,523	121	32	-	1,986
Transfers	-	-	-	(23)	-	(23)
Transfers to NCAHFS	(4,201)	(19)	(897)	-	-	(5,117)
Disposals	(3,272)	-	(1,542)	(154)	-	(4,968)
Revaluation	87,336	20,124	75	52	-	107,587
At 31 March 2010	474,670	109,577	572	575	-	585,394
Depreciation:						
At 1 April 2009	-	-	47	417	-	464
Provided during year	-	-	50	82	-	132
Transfers	-	-	-	(18)	-	(18)
Transfers to NCAHFS	-	-	(28)	-	-	(28)
Disposals	-	-	(47)	(151)	-	(198)
Revaluation	-	-	1	21	-	22
At 31 March 2010	-	-	23	351	-	374
Net book value at:						
31 March 2010	474,670	109,577	549	224	-	585,020
1 April 2009	393,497	87,949	2,768	251	-	485,465
Asset Financing:						
Owned	474,670	109,577	549	224	-	585,020
Finance leased	-	-	-	-	-	-
Net book value at 31 March 2010	474,670	109,577	549	224	-	585,020

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 2009-10, 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 2009-10, valuations were updated using indices provided by the District Valuer and valuations provided by Country Land Agent.

Information technology (IT) was restated to a current value of £224,000 as at 31 March 2010 using an index provided by the Office for National Statistics.

Depreciation of £132,000 (2008-09: £130,000) is included in other administration costs in the operating cost statement.

	Forest Estate	Other Land	Buildings	IT	Assets Under Construction	Total
	£000	£000	£000	£000	£000	£000
Valuation:						
At 1 April 2008	370,870	59,410	356	653	15	431,304
Additions	1,415	5,613	2,705	77	-	9,810
Transfers	(7,574)	6	(245)	(45)	(6)	(7,864)
Disposals	(280)	(691)	-	(13)	-	(984)
Write-off	-	-	-	-	(9)	(9)
Revaluation	30,066	23,611	(1)	-	-	53,676
Impairment	-	-	-	(4)	-	(4)
At 1 April 2009	394,497	87,949	2,815	668	-	485,929
Depreciation:						
At 1 April 2008	-	-	-	382	-	382
Provided during year	-	-	47	83	-	130
Transfers	-	-	-	(34)	-	(34)
Disposals	-	-	-	(12)	-	(12)
Write-off	-	-	-	-	-	-
Revaluation	-	-	-	-	-	-
Impairment	-	-	-	(2)	-	(2)
At 1 April 2009	-	-	47	417	-	464
Net book value at:						
1 April 2009	394,497	87,949	2,768	251	-	485,465
1 April 2008	370,870	59,410	356	271	15	430,922
Asset financing:						
Owned	394,497	87,949	2,768	251	-	485,465
Finance Leased	-	-	-	-	-	-
Net book value at 1 April 2009	394,497	87,949	2,768	251	-	485,465

NOTE 11 BIOLOGICAL ASSETS

Non-current biological assets comprise of timber.

Timber growing on Forest Estate Land is categorised as Biological Asset Timber or Other Timber depending on the strategic objective the land is held to meet. Other trees are classed as Other Timber and are out-with the scope of IAS 41.

The carrying value of total biological assets was £462,725,000 at 31 March 2010 (2008-09: £394,586,000).

Bidwells Chartered Surveyors revalued the forest estate including biological assets. The next full revaluation is due as at 1 April 2013. For 2009-10, valuations were updated using indexation information provided by Bidwells Chartered Surveyors. Apportionment of biological assets were carried out by Forestry Commission staff using the judgements and estimates outlined at Note 2.

The movement in the Biological Asset balance during the period has been as follows:-

	2009-10	2008-09
	£000	£000
At 1 April 2009	394,587	297,936
Disposals	(3,100)	(13)
Fellings	(18,263)	(16,369)
Transferred to NCAHFS	(3,870)	(3,216)
Gains and losses arising from changes in fair values	93,371	116,248
At 31 March 2010	462,725	394,586

NOTE 12 NON-CURRENT ASSETS HELD FOR SALE

The following assets related to surplus properties have been presented as held for sale following the approval for sale by the management of Forestry Commission Scotland. The completion dates for sale are expected to be within the 12 months to 31 March 2011.

	Forest Estate	Buildings	Total
	£000	£000	£000
At 1 April 2008	-	-	-
Transfers in from PPE	10,790	244	11,034
Disposals	(8,048)	-	(8,048)
Balance at 1 April 2009	2,742	244	2,986
Transfers in from PPE	8,090	870	8,960
Disposals	(3,547)	(244)	(3,791)
Revaluation	-	(156)	(156)
At 31 March 2010	7,285	714	7,999

NOTE 13 Financial instruments

13(a) Financial Instruments by Category

	31 March 2010		1 April 2009		1 April 2008	
	Loans and Receivables	Total	Loans and Receivables	Total	Loans and Receivables	Total
	£000	£000	£000	£000	£000	£000
Assets as per statement of financial position						
Trade and other receivables (excluding prepayments)	1,005	1,005	1,614	1,614	1,844	1,844
Cash and cash equivalents	1,575	1,575	14,539	14,539	3,402	3,402
Total	2,580	2,580	16,153	16,153	5,246	5,246

	31 March 2010		1 April 2009		1 April 2008	
	Other financial liabilities	Total	Other financial liabilities	Total	Other financial liabilities	Total
	£000	£000	£000	£000	£000	£000
Liabilities as per the Statement of Financial Position						
Trade and other payables excluding statutory liabilities	1,276	1,276	3,627	3,627	1,443	1,443
Total	1,276	1,276	3,627	3,627	1,443	1,443

13(b) 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.

Due to the way in which government departments are financed, Forestry Commission Scotland is not exposed to the degree of financial risk faced by business entities.

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 internal ratings and parameters set by Forestry Commission Scotland. The utilisation of credit limits is regularly monitored.

Refer to Note 15 for further analysis of credit risk.

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 the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant

	Less than 1 year £000	Between 1 and 2 years £000	Between 2 and 5 years £000	Over 5 years £000
At 31 March 2010				
Trade and other payables excluding statutory liabilities	1,276	-	-	-
Total	1,276	-	-	-
	Less than 1 year £000	Between 1 and 2 years £000	Between 2 and 5 years £000	Over 5 years £000
At 1 April 2009				
Trade and other payables excluding statutory liabilities	3,627	-	-	-
Total	3,627	-	-	-

	Less than 1 year £000	Between 1 and 2 years £000	Between 2 and 5 years £000	Over 5 years £000
At 1 April 2008				
Trade and other payables excluding statutory liabilities	1,443	-	-	-
Total	-	-	-	-

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

Forestry Commission Scotland has no significant interest bearing assets or liabilities and as such income and expenditure cash flows 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.

13(c) Capital risk management

Forestry Commission Scotland's objectives when managing its capital structure are to maintain its ability to continue to provide benefits for stakeholders and to maintain an optimal capital structure to safeguard Taxpayers' Equity.

13(d) Fair Value Estimation

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

NOTE 14 INVENTORIES

	31 March 2010 £000	1 April 2009 £000	1 April 2008 £000
Publications	13	15	19
Total	13	15	19

NOTE 15 TRADE AND OTHER RECEIVABLES

15(a) Analysis by type

	31 March 2010	1 April 2009	1 April 2008
	£000	£000	£000
Current			
Trade receivables	846	1,372	672
Less provision for impairment of trade receivables	(45)	(5)	-
Trade receivables - net	801	1,367	672
House purchase loans to employees	3	3	6
EU funding accrued income	186	226	1,140
Prepayments and accrued income	109	92	79
Other receivables	-	-	1
	1,099	1,688	1,898
Non Current			
House purchase loans to employees	15	18	25
	15	18	25

The carrying amounts of trade and other receivables are a reasonable approximation of fair value.

All non-current receivables are due within 8 years from the 31 March 2010.

As of 31 March 2010, trade receivables of £65,000 (2008-09: £96,000) were fully performing and not past due or impaired and provided for.

As of 31 March 2010, trade receivables of £781,000 (2008-09: £1,271,000) were past due but not impaired. These relate to a number of customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	31 March 2010	1 April 2009	1 April 2008
	£000	£000	£000
Less than one month	17	55	66
One to two months	-	35	-
Two to three months	-	-	229
More than three months	764	1,181	255
	781	1,271	550

As of 31 March 2010, trade receivables totalling £44,000 (2008-09: £5,000 relating to one debt) were impaired and also provided for.

	31 March 2010	1 April 2009	1 April 2008
	£000	£000	£000
Advanced legal proceedings underway	1	5	-
Customer bankruptcy	43	-	-
	44	5	-

The ageing of the trade receivables provided for is as follows

	31 March 2010	1 April 2009	1 April 2008
	£000	£000	£000
Less than one month	-	-	-
One to two months	-	-	-
Two to three months	-	-	-
More than three months	44	5	-
	44	5	-

Movements in the provision for impairment of trade receivables are as follows:

	2009-10
	£000
At 1 April 2008	-
Provision for receivables	5
At 1 April 2009	5
New provisions	44
Provisions written off	(5)
At period end	44

The other classes within trade and other receivables do not contain impaired assets.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. Forestry Commission Scotland does not hold any collateral as security.

The carrying amounts of trade and other receivables are denominated in the following currencies:

	31 March 2010	1 April 2009	1 April 2008
	£000	£000	£000
GBP Sterling	1,114	1,706	1,923
Euro	-	-	-
US Dollar	-	-	-
	1,114	1,706	1,923

15(b) Intra-Government Balances

	Current			Non-Current		
	31 March 2010	1 April 2009	1 April 2008	31 March 2010	1 April 2009	1 April 2008
	£000	£000	£000	£000	£000	£000
Balances with other central government bodies	3	35	1,151	-	-	-
Balances with local authorities	-	4	-	-	-	-
Intra-government balances	3	39	1,151	-	-	-
Balances with bodies external to government	1,096	1,649	747	15	18	25
Total	1,099	1,688	1,898	15	18	25

NOTE 16 CASH AND CASH EQUIVALENTS

	2009-10
	£000
Balance at 1 April 2008	3,402
Net change in cash and cash equivalent balances	11,137
Balance at 1 April 2009	14,539
Net change in cash and cash equivalent balances	(12,964)
Balance at 31 March 2010	1,575
Amounts issued from the Scottish Government for supply but not spent at year end	1,575

	31 March 2010	1 April 2009	1 April 2008
	£000	£000	£000
The following balances were held at:-			
Office of HM Paymaster General	1,575	14,539	3,402
Commercial banks and cash in hand	-	-	-
Short term investments	-	-	-
Total	1,575	14,539	3,402

NOTE 17 TRADE AND OTHER PAYABLES

17(a) Analysis by type

	31 March 2010	1 April 2009	1 April 2008
	£000	£000	£000
Current:			
Taxation and social security costs	24	26	333
Trade payables	100	1,727	939
Other payables	-	1	1
Accruals and deferred income	1,252	1,996	219
Amounts issued from the Scottish Government for supply but not spent at period end	1,576	14,539	3,402
Total	2,952	18,289	4,894

The carrying amounts of trade and other liabilities are a reasonable approximation of their fair value.

The carrying amounts of trade and other payables are denominated in the following currencies:

	31 March 2010	1 April 2009	1 April 2008
	£000	£000	£000
GBP Sterling	2,952	18,289	4,894
Euro	-	-	-
US Dollar	-	-	-
	2,952	18,289	4,894

17(b) Intra-Government Balances

	Current			Non-Current		
	31 March 2010	1 April 2009	1 April 2008	31 March 2010	1 April 2009	1 April 2008
	£000	£000	£000	£000	£000	£000
Balances with other central government bodies	1,576	15,992	3,402	-	-	-
Balances with local authorities	-	-	170	-	-	-
Intra-government balances	1,576	15,992	3,572	-	-	-
Balances with bodies external to government	1,376	2,297	1,322	-	-	-
Total	2,952	18,289	4,894	-	-	-

NOTE 18 PROVISIONS FOR LIABILITIES AND CHARGES

	Early departure costs £000	Total £000
Balance at 1 April 2008	31	31
Provided in the year	1	1
Utilised in the year	(20)	(20)
Unwinding of discount	1	1
Balance at 1 April 2009	13	13
Provided in the year	31	31
Utilised in the year	(17)	(17)
Unwinding of discount	(1)	(1)
Balance at 31 March 2010	26	26

Analysis of expected timing of discounted cash flows relating to the balance at 31 March 2010:-

	Early departure costs £000	Total £000
In the remainder of the Spending Review period to 31 March 2011	24	24
Between 1 April 2011 and 31 March 2016	2	2
Between 1 April 2016 and 31 March 2021	-	-
Thereafter	-	-
Balance at 31 March 2010	26	26

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 19 RESERVES

19(a) General Fund

	2009-10 £000	2008-09 Restated £000
Balance at 1 April	618,315	519,481
Changes in accounting policy	(1,185)	(165)
Adjusted balance at 1 April	617,130	519,316
Movement in year:		
Net operating (cost)/surplus for the year	(12,166)	14,761
Net Parliamentary funding	51,000	62,500
Forest Enterprise Scotland capital and non-cash adjustments (note 7)	(331)	4,454
Realised element of the revaluation reserve	2	-
Notional cost of capital	29,551	30,551
Transfer of property, plant and equipment to other forestry bodies	(5)	(13)
Timing between accrual and cash VAT	8	25
Non-cash inter-country transfers	(1)	2
Transfer of partnership lease from Forest Enterprise Scotland	-	31
Notional audit fees	46	42
Amounts issued from the Scottish Consolidated Fund for supply but not spend at period end	(1,575)	(14,539)
Balance at 31 March	683,659	617,130

19(b) Revaluation Reserve

	2009-10	2008-09
	£000	£000
Balance at 1 April	262,647	209,963
Changes in accounting policy	1,185	165
Adjusted balance at 1 April	263,832	210,128
Arising on revaluation during the year:		
Forest Estate	87,336	30,094
Land	20,124	23,611
Buildings	76	(1)
IT (OME)	-	-
	107,536	53,704
Arising on revaluation of NCAHFS:		
Buildings	(156)	-
Write-off to OCS from the revaluation reserve	324	-
Transferred to general fund in respect of realised element of revaluation reserve	(2)	-
Balance at 31 March	371,534	263,832

19(c) Donated asset reserve

	2009-10	2008-09
	£000	£000
Balance at 1 April	33	-
Additions during the year	246	42
Revaluation	4	(1)
Release to OME	(8)	(8)
Balance at 31 March 2010	275	33

NOTE 20 NOTES TO THE CASHFLOW STATEMENT

Adjustments for non-cash transactions:

	2009-10	2008-09
	£000	£000
Depreciation	132	132
Property, plant and equipment write-off	-	9
Property, plant and equipment impairment	-	2
Revaluation reserve write-off	324	-
(Gain)/loss on revaluation of OME	(31)	-
(Gain)/loss on disposals	(5,838)	(3,049)
Notional cost of capital	29,551	30,551
Notional audit fees	46	42
Movement on donated asset reserve (other than additions)	(8)	(8)
Other adjustments	189	-
Provisions provided in year	31	1
Unwinding of discount	(1)	1
	24,395	27,681

NOTE 21 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 2010

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.

	2009-10 £000	2008-09 £000
Improve health and well-being of people and their communities	193,020	172,819
Competitive and innovative businesses contributing to the growth of the Scottish economy	573,712	315,618
High quality, robust and adaptable environment	288,736	392,558
Total	1,055,468	880,995

NOTE 22 CAPITAL COMMITMENTS

There were no contracted capital commitments at 31 March 2010 (2008-09: £nil).

NOTE 23 COMMITMENTS UNDER LEASES

Operating leases

Total future minimum lease payments under operating leases are given in the table below for each of the following periods.

	31 March 2010 £000	1 April 2009 £000	1 April 2008 £000
Buildings:			
Not later than one year	111	140	140
Later than one year and not later than five years	383	388	423
Later than five years	614	523	512
	1,108	1,051	1,075

NOTE 24 OTHER FINANCIAL COMMITMENTS

Planting and replanting grants

Following approval of a management plan for planting proposals, the Forestry Commission undertakes to pay planting grants in three instalments. At 31 March 2010, the Forestry Commission was committed under signed plans to the payment of future instalments of planting and replanting grants amounting to £15.0 million (2008-09: £22.4 million)

Existing woodlands

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 £4.5 million at 31 March 2010 (2008-09: £8.0 million).

The above payments analysed by the period during which the commitment expires are as follows:

	31 March 2010	1 April 2009
	£000	£000
Not later than one year	13,423	21,642
Later than one year and not later than five years	5,611	8,633
Later than five years	418	196
	19,452	30,471

NOTE 25 CONTINGENT LIABILITIES DISCLOSED UNDER IAS 37

There were no contingent liabilities at 31 March 2010 (2008-09: Nil).

NOTE 26 OPERATING LEASE RECEIVABLES

All future minimum lease payments receivable under non-cancellable operating leases are held by Forest Enterprise Scotland.

NOTE 27 LOSSES AND SPECIAL PAYMENTS

	Number	2009-10 £000	Number	2008-09 £000
Losses total	5	17	24	124
Special payments total	5	4	2	2
	10	21	26	126

NOTE 28 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 the Forestry Commission 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 Hamish Macleod, a non-executive Forestry Commissioner and a member of the National Committee for Scotland, which are disclosed in the Annual Report and Accounts 2009-10.

The following transactions were carried out with related parties:

28(a) Other

	2009-10	2008-09
	£000	£000
Funding and forestry grant payments	<u>1,131</u>	<u>974</u>
	1,131	974

Simon Rennie, a non-executive member of the National Committee for Scotland, is a Director of the Central Scotland Forest Trust, which received funding and forestry grant payments totalling £1,123,961. A further £5,000 was owing to the Central Forest Trust at 31 March 2010.

Gordon Mann, a non-executive Forestry Commissioner, is Chief Executive of Dumfries and Galloway Chamber of Commerce. Dumfries and Galloway Chamber of Commerce received a £2,000 grant from Forestry Commission Scotland in respect of the Mountain Bike Business Network.

28(b) Key management compensation

Refer to the Remuneration Report for further details of remuneration of the National Committee for Scotland and the Forestry Commission Scotland Management Board.

28(c) Loans to related parties

	2009-10	2008-09
	£000	£000
Loans to key management personnel (house purchase)		
Balance at 1 April	-	1
Repayments during year	<u>-</u>	<u>(1)</u>
Balance at 31 March	<u>-</u>	<u>-</u>

The above analysis relates to nil members of key management personnel (2008-09: one). House purchase loans to key management personnel are provided on the same terms and conditions as other Forestry Commission staff members. Such advances of salary are unsecured, interest free and typically repayable over 10 years, with an optional 2 year deferral period.

£Nil provision has been made at 31 March 2010 (2008-09: £nil) in relation to the loans made to key management personnel.

NOTE 29 EVENTS AFTER 31 MARCH 2010

In accordance with the requirements of IAS 10, events after 31 March 2010 are considered up to the date on which the accounts are authorised for issue. These accounts were authorised for issue on 28 July 2010.

Non-adjusting events after 31 March 2010: It was announced in the Budget on 22 June 2010 that the Government intends to adopt the Consumer Price Index (CPI) for the indexation of public service pensions from April 2011. This will have an impact upon the future operation of the pension schemes that Forestry Commission Scotland provides to employees.

NOTE 30 RECONCILIATION OF RESTATED BALANCES

From 2009-10, Forestry Commission Scotland have received permission from Treasury to recognise new planting in the Operating Cost Statement. Previously, this was capitalised and formed part of the Forest Estate balance.

	£000
New planting 2007-08	165
New planting 2008-09	1,020
Total	1,185

In accordance with IAS 8, 2008-09 and 2007-08 comparatives have been adjusted to account for this change in accounting methodology as follows:-

	Note	Per 2008-09 Shadow Accounts £000	Restated Balance £000	Adjustment £000
Operating Cost Statement				
Programme expenditure 2008-09	OCS, 7	97,067	98,087	1,020
Net deficit for the year 2008-09	OCS, 3	(15,781)	(14,761)	1,020
Statement of Financial Position				
General fund				
Balance at 1 April 2008	SFP, SOCE, 19a, 3	519,481	519,316	(165)
Net surplus for the year 2008-09	SFP, SOCE, 19a, 3	(15,781)	(14,761)	1,020
Balance at 1 April 2009	SFP, SOCE, 19a, 3	618,315	617,130	(1,185)
Revaluation reserve				
Balance at 1 April 2008	SFP, SOCE, 19b, 3	209,963	210,128	165
Revaluation of forest estate 2008-09	SFP, SOCE, 19b, 3	29,046	30,066	1,020
Balance at 1 April 2009	SFP, SOCE, 19b, 3	262,647	263,832	1,185
Property plant and equipment				
Forest estate net book value at 1 April 2008	SFP, 10	370,870	370,870	-
Forest estate additions 2008-09	10	2,435	1,415	(1,020)
Forest estate revaluation 2008-09	10	29,046	30,066	1,020
Forest estate net book value at 1 April 2009	SFP, 10	394,497	394,497	-
Statement of Cash Flows				
Net deficit for the year	CF	15,781	14,761	(1,020)
Purchase of property plant and equipment	CF	(10,830)	(9,810)	1,020

NOTE 31 ENTITIES WITHIN THE DEPARTMENTAL BOUNDARY

The entities within the boundary during the nine months to 31 March 2010 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, illegible stamp.

Signed by the authority of the Scottish Ministers

Dated 17 January 2006



Forestry Commission Scotland
Coimisean na Coilltearachd Alba

Forest Enterprise Scotland

Annual Accounts 2009-10

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.

DEPARTMENTAL ACCOUNTING BOUNDARY

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

FINANCIAL REVIEW

Forest Enterprise Scotland incurred a deficit on its Income and Expenditure Account, before cost of capital, of £6.2 million (2008-09: £7.5 million).

The operating surplus was £12.2 million as described below:

- The income from sales of timber was £39.7 million which was an increase of £2.4 million on 2008-09. There was an increase in the volume of timber despatched and on price due to an upturn in demand for timber.
- Deer management and other forest maintenance income of £1.4 million was £0.2 million higher than 2008-09 mainly due to an increase in venison sale prices.
- The income from the management of the estate of £10.7 million was a planned reduction of £1.3 million over 2008-09. External Agency income was significantly down as the Strategic Timber Transport road project at Barrhill neared completion. There were also reduced contributions towards the Glenmore Sewerage project. These were partly offset by increased Estate Development income from Windfarm Development and Telecom sites.
- The overall cost of harvesting and marketing at £22 million was £1.8 million higher than in 2008-09. This was due to cash contract costs on an increased harvesting programme.
- Deer management and other forest protection and maintenance costs were £8.3 million which was a small increase of £0.2m on 2008-09.
- Expenditure on management and development of the estate at £4.1 million was a decrease of £1.6 million on 2008-09. The decrease arose mainly from a reduction in expenditure on the Glenmore Sewerage system in the Cairngorm National Park. There was also a significant reduction in machine and vehicle lease expenditure.

The net cost of recreation, conservation and heritage was £14.6 million which was a decrease of £2.4 million on 2008-09. This was due to the programme being reduced from last year and work postponed because of the severe winter weather.

Building assets were revalued upwards by £1.2 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 £3.7 million. The main project was the Glentress Peel visitor infrastructure in the Tweed Valley Forest park where building construction commenced during the last quarter of 2009–10. The project is due to complete in late 2010–11.

Purchases of forestry vehicles, machinery and equipment (VME) amounted to £1.8 million compared with net disposals of £0.1 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 £8.2 million (2008-09 £4.5 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 budgetary control over the partnership, then, in accordance with the FReM the arrangement is regarded as an investment. Under IAS 32 and IAS 39 the investment is treated as a financial asset. In accordance with the initial business plan, no income has been received from the investment in the partnership.

The Forest Holidays business continues to develop well, with new sites planned within Scotland.

Future Work

The top priority recreation project is to construct the new Glentress Peel visitor infrastructure in the Tweed Valley Forest Park near Peebles. Construction of the building commenced during the last quarter of 2009-10 and the project is scheduled to be completed in spring 2011.

We will continue 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

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 payment policy directed in the Government's Better Payment Practice Code and Scottish Government's Public Finance Manual. Unless otherwise stated in the contract, we aim to pay within the Scottish Government's tighter target of 10 working days from the receipt of goods and services or the presentation of a valid invoice, whichever is the later. A sample analysis of bill payments for 2009 -10 indicates that 97.3% were paid within the 10 day target and 99.1% within the 30 day target set by the Government's Better Payment Practice Code.

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 2009-10 of 6.0.

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

Simon Hodge
Chief Executive and Agency Accountable Officer
28 July 2010

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 non-consolidated performance payment, 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 non-consolidated performance payments. Further information on the work of the SSRB can be found at www.ome.uk.com.
- Reporting Officers recommendations on the relative performance of each of their senior staff, whether a non-consolidated performance payment 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 non-consolidated performance payment 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 non-consolidated performance payment, 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:

	2009-10		2008-09	
	Salary £000	Benefits in kind To nearest £100	Salary £000	Benefits in kind To nearest £100
Hugh Insley	65-70 ¹	-	95-100	-
Simon Hodge	25-30 ²	-	n/a	-
Les Bryson	70-75	2,000	70-75	1,200
Laurie Tyson	60-65	-	55-60	-
Alan Stevenson	60-65	-	60-65	-
Moira Baptie	50-55	600	50-55	1,100
Alan Duncan	50-55	-	45-50	-
Nicol Sinclair	40-45	600	40-45	200
Michael Ansell	75-80	-	70-75	-
Nicola Whitaker	45-50 ³	200	n/a	-

The salary and pension costs for the HR Business Partner (Scotland) are borne and disclosed in the Forestry Commission Scotland Annual Report and Accounts 2009-10. The HR Business Partner (Scotland) was Helen Paterson until 1 June 2009 and Alison McSheaffrey from 3 August 2009.

Salary

'Salary' includes basic salary; non-consolidated performance payment; 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.

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 Management Board had such outstanding loans during the year:

	Balance at 1 April 2009	Balance at 31 March 2010	Maximum balance during the year
	£000	£000	£000
Nicol Sinclair	7	6	7

¹ Figure quoted is for the period 1 April 2009 to 7 December 2009. The full year equivalent is 95-100.

² Figure quoted is for the period 7 December 2009 to 31 March 2010. The full year equivalent is 80-85.

³ Figure quoted is for the period 15 May 2009 to 31 March 2010. The full year equivalent is 45-50.

Pension Benefits

	Accrued pension at pension age at 31 March 2010 and related lump sum	Real increase in pension and related lump sum at pension age	CETV at 31 March 2010	CETV at 31 March 2009*	Real increase in CETV	Employer contribution to partnership pension account
	£000	£000	£000	£000	£000	Nearest £100
Hugh Insley	40-45 plus LS of 125-130	0-2.5 plus LS of 5-7.5	1,015	956	40	-
Simon Hodge	20-25 plus LS of 60-65	0-2.5 plus LS of 5-7.5	330	273	28	-
Les Bryson	25-30 plus LS of 75-80	0-2.5 plus LS of 2.5-5	533	474	29	-
Laurie Tyson	15-20 plus LS of 55-60	0-2.5 plus LS of 5-7.5	390	330	38	-
Alan Stevenson	20-25 plus LS 70-75	0-2.5 plus LS of 2.5-5	478	421	29	-
Moira Baptie	10-15 plus LS of 40-45	0-2.5 plus LS of 2.5-5	218	189	16	-
Alan Duncan	20-25 plus LS of 70-75	0-2.5 plus LS of 5-7.5	528	456	46	-
Nicol Sinclair	10-15 plus LS of 30-35	0-2.5 plus LS of 2.5-5	152	130	14	-
Michael Ansell	0-5 plus LS of 0-5	0-2.5 plus LS of 0-2.5	59	38	16	-
Nicola Whitaker	10-15 plus LS of 30-35	0-2.5 plus LS of 2.5-5	148	124	15	-

*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 may opt for either the appropriate defined benefit arrangement or a 'money purchase' stakeholder pension with an employer contribution (**partnership** pension account).

Employee contributions are set at the rate of 1.5% of pensionable earnings for **classic** and 3.5% for **premium**, **classic plus** and **nuvos**. Benefits in **classic** accrue at the rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years initial 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 for service before 1 October 2002 calculated broadly as per **classic** and benefits for service from October 2002 worked out 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 a 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 www.civilservice-pensions.gov.uk

Cash Equivalent Transfer Values

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

The figures include the value of any pension benefit in another scheme or arrangement which the member has transferred to the Civil Service pension arrangements. They also include any additional pension benefit accrued to the member as a result of their buying additional pension benefits at their own cost. CETVs are worked out within the guidelines and framework prescribed by the Institute and Faculty of Actuaries and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are taken.

Real increase in CETV

This reflects the increase in CETV that is 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.

Simon Hodge
Chief Executive and Agency Accountable Officer
28 July 2010

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 Principal Accounting Officer, formally responsible to Parliament for the financial affairs of the Forestry Commission.

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

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

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

2. Purpose of the System of Internal Control

The system of internal control is designed to manage risk rather than eliminate the risk of failure to achieve Forest Enterprise Scotland policies, aims and objectives. It can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify the principal risks to the achievement of Forest Enterprise Scotland policies, aims and objectives; to evaluate the nature and extent of those risks and to manage them efficiently, effectively and economically. The process within Forest Enterprise Scotland accords with the SPFM and has been in place for the year ended 31 March 2010 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 2010 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 20 October 2009. The register was also presented to the Management Board on 16 February 2010 where it was agreed that the register will be a standing item at future Management Board meetings. The register was approved by the Management Board on 16 March 2010.
- Participated in the Forestry Commission (FC) wide, Risk Management Group (RMG), which met on 27 August 2009 and 2 December 2009 as separate meetings and incorporated in to the agenda of the annual meeting of Finance Managers which met on 28 – 29 January 2010. These meetings reviewed developments across the FC and considered the most efficient and effective processes to ensure that adequate risk management and business continuity planning arrangements are in place.
- With active involvement of responsible line managers, reviewed all Business Continuity Plans (BCPs) in place in FE Scotland to ensure that they remain up to date, relevant and accessible.

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 on 1 July 2009, 28 October 2009, 10 March 2010 and 28 July 2010. At each meeting they considered a range of reports from management, and from internal and external audit.

The ARC membership consists of 3 Non-Executives, with Forestry Commission Scotland's Director, Agency Chief Executive and Head of Corporate Services, the Head of Internal Audit and Audit Scotland representatives normally also in attendance. It deals with higher level issues concerning control and governance and supports the National Committee, Country Director and the Agency Chief Executive. It is provided with detailed advice on the work of Internal Audit in particular and control in general.

The ARC advises the National Committee and Accountable Officers on:

- The strategic processes for risk, control and governance in Forestry Commission Scotland and Forest Enterprise Scotland;
- The Statement on Internal Control in Forestry Commission Scotland and Forest Enterprise Scotland;
- The accounting policies, the accounts and the annual report of Forestry Commission Scotland and Forest Enterprise Scotland, including the process for review of the accounts prior to submission for audit, levels of error identified, and management's letter(s) of representation to the external auditors;

- The planned activity and results of both internal and external audit;
- The adequacy of management response to issues identified by audit activity, including internal audit reports and external audit's management letter;
- Assurances relating to the corporate governance requirements for Forestry Commission Scotland and Forest Enterprise Scotland;
- Anti-fraud policies and whistle blowing processes.

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

4. Protecting Information in Government (Information Assurance)

The Data Handling Review (DHR) published in June 2008 identified the areas where government needed to improve its data handling capability and put in place a firm set of rules for departments to follow. In determining the Forestry Commission's approach to information assurance, we have taken the view that our information systems hold a relatively small number of records and that the volume of information requiring a protective marking is relatively low.

Director Finance GB acts as the Senior Information Risk Owner (SIRO) on behalf of the FC Executive Board. He chairs the Information Security Management Forum (ISMF) which co-ordinates and controls the implementation of information security across the Forestry Commission. The ISMF met on 10 occasions during 2009-10. The work of the ISMF is supported on a day to day basis by the Departmental Security Officer and the IT Security Officer.

The ISMF has used the SIRO aide memoire, produced by the Cabinet Office, to identify and monitor the key actions needed to implement the 21 mandatory measures as defined by the DHR. Regular progress reports are provided to management and the Audit & Risk Committee during the year and the SIRO's Annual Report summarises progress over the year. The report for 2009-10 contains an annex which compares our progress with the 33 Minimum Mandatory Measures (MMMs) in the "Protecting Information in Government" report published by the Cabinet Office in January 2010.

One of the key mandatory actions required is information risk awareness training for those staff handling personal information. In line with most other departments, the FC chose to utilise the on-line training module developed by the National School for Government. By the end of April 2010, some 860 staff in Scotland had successfully completed the training, leaving a small number of staff to complete the exercise. The ISMF is now working on plans for further, more advanced, training for those staff with specific information handling responsibilities.

In order to sustain and develop the progress made by the DHR, Cabinet Office has introduced the Information Assurance Maturity Model (IAMM) as a way of helping organisations understand their strengths and weaknesses in information handling, and to set out the path to improvement over the longer term. The FC undertook a self-assessment against the IAMM which confirmed the long suspected key areas of risk to be addressed were:

- Improvements to business continuity and disaster recovery systems within central shared services;
- Improvements to systems access controls;
- Further documentation of processes and procedures leading to less dependency on key staff.

Although this is of concern, in recent times we have suffered only one major systems failure. This occurred in December 2008 through a particular set of circumstances and we were able to recover the situation in five days despite the issues highlighted above.

Although our Information Services (IS) took immediate action to prevent a re-occurrence, further work is still required to address key areas of vulnerability. IS has now developed a longer term strategy to re-establish quality information services and technology. By the end of the financial year, we had made funds available to IS to start a significant investment programme in the ICT infrastructure to reduce the business risk from system

failure. The work is described in the IS Infrastructure Proposal document, which overall has a 2-3 year incremental delivery timescale, subject to sufficient resources being available. New equipment recently purchased will allow IS to improve some of the more critical back-up and recovery arrangements as quickly as possible.

Further work is still required both within Scotland and the central services to establish an overall project plan encompassing all three of the key risk areas. This will be taken forward under the lead of Director Finance GB in his role as SIRO and as a member of the ICT Service Board.

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 2010-11 are:

- 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 has been accredited under the Investors in People (IIP) accreditation scheme since 2000 and this is due for review in June 2010. IIP indicates to the general public and potential employees that the Forestry Commission is a high quality employer. Without this, our reputation with stakeholders could be damaged. There would also be practical costs and logistics involved in removing all indication of accreditation. Controls are in place to ensure appropriate steps will be taken to achieve accreditation with regular review by FE Scotland Management Board.

The Head of Internal Audit has prepared an annual report and assurance statement to me as Agency Chief Executive and Accountable Officer. The report includes an overall assessment of the adequacy and effectiveness of risk management, control and governance within Forestry Commission and Forest Enterprise Scotland. The Director General as Principal Accounting Officer has received a similar report and assurance statement including any comments specific to the Great Britain core responsibilities. The overall opinion is that internal control within the Forestry Commission and Forest Enterprise Scotland continues to provide substantial assurance that material risks to the achievement of objectives are adequately managed. However, the Head of Internal Audit has highlighted that insufficient progress on some key business continuity planning and information assurance work has led to a limited opinion in respect of these items. Our action for dealing with this is covered under the paragraphs above headed Protecting Information in Government.

6. Significant Internal Control Problems

There were no significant problems to report.

Simon Hodge
Chief Executive and Agency Accountable Officer
28 July 2010

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF 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 2010 under the Forestry Act 1967. These comprise the Income and Expenditure Statement, Statement of Changes in Taxpayers' Equity, the Statement of Financial Position, 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 the body'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 2010 and of the net deficit for the year, changes in taxpayers' equity 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
7th Floor
Plaza Tower
East Kilbride
G74 1LW**

Date **28 July 2010**

INCOME AND EXPENDITURE STATEMENT

for the year ended 31 March 2010

	Note	2009-10 £000	2008-09 Restated £000
Operating Income			
Sales of Timber		39,694	37,265
Forest Protection and Maintenance		1,351	1,155
Management and Development of Estate		10,654	11,934
		<u>51,699</u>	<u>50,354</u>
Operating Expenditure			
Forest Planning		(5,187)	(4,777)
Haulage of Timber		(21,978)	(20,201)
Forest Protection and Maintenance		(8,284)	(8,125)
Management and Development of Estate		(4,096)	(5,551)
		<u>(39,545)</u>	<u>(38,654)</u>
Operating Surplus		12,154	11,700
Recreation, Conservation & Heritage			
Income		2,325	2,805
Expenditure		(16,941)	(19,806)
		<u>(14,616)</u>	<u>(17,001)</u>
Operating Deficit Net of R,C & H		(2,462)	(5,301)
Deficit on sale of properties	7	(3,701)	(2,173)
Deficit		(6,163)	(7,474)
Notional cost of capital	8	(1,670)	(1,518)
Net Deficit for the Year		(7,833)	(8,992)
Transferred to General Fund	19	(7,833)	(8,992)

There have been no acquisitions during the year.

The notes on pages 90 to 117 form part of these accounts

STATEMENT OF FINANCIAL POSITION

as at 31 March 2010

	Note	31 March 2010 £000	1 April 2009 £000	1 April 2008 £000
Non-current assets				
Property, plant and equipment	9	39,776	32,497	37,081
Biological assets	11	795	686	657
Financial assets	10	1,833	1,833	1,833
Trade and other receivables	15	1,306	1,304	1,351
Total non-current assets		43,710	36,320	40,922
Current assets				
Non-current assets held for sale	12	92	499	1,332
Inventories	14	1,482	1,997	2,014
Trade and other receivables	15	13,083	13,467	13,771
Cash and cash equivalents	16	1	2	7
Total current assets		14,658	15,965	17,124
Total assets		58,368	52,285	58,046
Current liabilities				
Provisions	18	(154)	(292)	(482)
Trade and other payables	17	(8,198)	(6,749)	(6,660)
Total current liabilities		(8,352)	(7,041)	(7,142)
Non-current assets plus net current assets		50,016	45,244	50,904
Non-current liabilities				
Provisions	18	(63)	(2,632)	(1,240)
Trade and other payables	17	(2,231)	(139)	-
Total non-current liabilities		(2,294)	(2,771)	(1,240)
Assets less liabilities		47,722	42,473	49,664
Taxpayers' equity				
General fund	19	36,435	33,646	36,588
Revaluation reserve	19	10,194	8,456	13,025
Donated asset reserve	19	102	-	-
Government grant reserve	19	991	371	51
Total taxpayers' equity		47,722	42,473	49,664

Simon Hodge
Chief Executive and Accountable Officer
28 July 2010

The notes on pages 90 to 117 form part of these accounts

CASH FLOW STATEMENT

for the year ended 31 March 2010

		2009-10	2008-09
	Note	£000	Restated £000
Cash flows from operating activities			
Net deficit for the year		(7,833)	(8,992)
Adjustments for non-cash transactions:			
Depreciation	9	2,095	1,977
Donated asset reserve released		-	-
Government grant reserve released		-	-
Timing between accrual and cash VAT	19	362	(129)
Non-cash inter-country transfers	19	35	216
Loss on disposal of property	7	1,742	402
Loss on disposal of other property, plant and equipment		128	243
Impairment of property, plant and equipment	9	(23)	2
Property, plant and equipment written off	9	-	242
Notional cost of capital	8	1,670	1,518
Write off of revaluation reserve	19	286	-
Movements in provisions	18	(2,513)	1,534
Decrease/(increase) in inventories	14	515	17
Decrease in trade and other receivables	15	382	351
Increase in trade and other payables	17	(1,171)	228
Decrease/(increase) in plant & seed (biological assets)		(109)	(29)
Revaluation of timber stock		-	(243)
Use of provisions	18	(194)	(332)
Net cash outflow from operating activities		(4,628)	(2,995)
Cash flows from investing activities			
Purchase of property, plant and equipment	9	(4,632)	(2,754)
Proceeds of disposal of properties	7	373	885
Lease repayment		-	-
Adjustments for non cash transactions:		-	-
Value of felling of biological assets		-	1
Net cash outflow from investing activities		(4,259)	(1,868)
Cash flows from financing activities			
Deficit funded by Forestry Commission	19	8,164	4,538
Donations towards capital expenditure	19	102	-
Government grants towards capital expenditure	19	620	320
Net financing		8,886	4,858
Net increase in cash and cash equivalents in the period		(1)	(5)
Cash and cash equivalents at the beginning of the period		2	7
Cash and cash equivalents at the end of the period		1	2

The notes on pages 90 to 117 form part of these accounts

STATEMENT OF CHANGES IN TAXPAYERS' EQUITY

for the year ended 31 March 2010

	Note	General Fund £000	Revaluation Reserve £000	Donated Asset Reserve £000	Government Grant Reserve £000	Total Reserves £000
Balance at 31 March 2008		36,588	13,025	-	51	49,664
Changes in accounting policy		-	-	-	-	-
Restated balance at 1 April 2008		36,588	13,025	-	51	49,664
Changes in taxpayers' equity for 2008-09						
Net gain/(loss) on revaluation of property, plant and equipment	19	-	(4,451)	-	-	(4,451)
Non-cash charges - notional cost of capital	19	1,518	-	-	-	1,518
Non-cash charges - timing between accrual and cash VAT	19	(129)	-	-	-	(129)
Non-cash charges - inter-country transfers	19	216	-	-	-	216
Realised element of revaluation reserve	19	118	(118)	-	-	-
Transfer of property, plant and equipment (to)/from other Forestry Bodies	19	32	-	-	-	32
Receipt of government grants	19	-	-	-	320	320
Revaluation of timber stocks		(243)	-	-	-	(243)
Net (deficit) for the year		(8,992)	-	-	-	(8,992)
Total recognised income and expense for 2008-09		(7,480)	(4,569)	-	320	(11,729)
Cash deficit funded by Forestry Commission	19	4,538	-	-	-	4,538
Balance at 31 March 2009		33,646	8,456	-	371	42,473
Balance at 31 March 2009		33,646	8,456	-	371	42,473
Changes in accounting policy		-	-	-	-	-
Restated balance at 1 April 2009		33,646	8,456	-	371	42,473
Changes in taxpayers' equity for 2009-10						
Net gain/(loss) on revaluation of property, plant and equipment	19	-	1,847	-	-	1,847
Non-cash charges – notional cost of capital	19	1,670	-	-	-	1,670
Non-cash charges - timing between accrual and cash VAT	19	362	-	-	-	362
Non-cash charges - inter-country transfers	19	35	-	-	-	35
Realised element of revaluation reserve	19	395	(395)	-	-	-
Revaluation reserve write off	19	-	286	-	-	286
Transfer of property, plant and equipment (to)/from other Forestry Bodies	19	(4)	-	-	-	(4)
Receipt of government grants	19	-	-	-	620	620
Receipt of donated assets	19	-	-	102	-	102
Net (deficit) for the year	19	(7,833)	-	-	-	(7,833)
Total recognised income and expense for 2009-10		(5,375)	1,738	102	620	(2,915)
Cash deficit funded by Forestry Commission	19	8,164	-	-	-	8,164
Balance at 31 March 2010		36,435	10,194	102	991	47,722

The notes on pages 90 to 117 form part of these accounts

NOTES TO THE ACCOUNTS

NOTE 1 ACCOUNTING POLICIES

1. Statement of accounting policies

These financial statements have been prepared on a going concern basis and in accordance with the 2009-10 *Government Financial Reporting Manual (FReM)* issued by HM Treasury. The accounting policies contained in the *FReM* apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context. Where the *FReM* permits a choice of accounting policy, the accounting policy which is 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. The particular policies selected by Forest Enterprise Scotland are described below. They have been applied consistently in dealing with items considered material in relation to the accounts.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 2.

1.1 Accounting convention

These accounts have been prepared under the historical cost convention modified to account for the revaluation of property, plant and equipment, inventories and available-for-sale financial assets, and derivative financial assets and derivative financial liabilities at fair value through profit or loss.

1.2 Capital charges

Notional charges, reflecting the cost of capital utilised by Forest Enterprise Scotland have been included in the income and expenditure statement. The charge is calculated at the real rate set by HM Treasury (3.5%) on the average carrying amount of all assets less liabilities, except for cash balances held by the Office of the Paymaster General.

1.3 Employee benefits

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 dependant's benefits. Forest Enterprise Scotland accounts for the PCSPS scheme as a defined contribution plan and recognises the expected cost of these elements on a systematic and rational basis over the period during which it benefits from employee's 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. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

Performance pay

As at 31 March 2008, Forest Enterprise Scotland recognised a liability and an expense for performance-related pay. Non-consolidated, non-pensionable bonuses are paid to staff whose work performance was assessed as being a "Top Performer" in accordance with the Commission's performance management system. The bonus amount is at a standard amount depending on the employee's grade and is pro rated for part-time staff. Except for staff in the Senior Staff Grade, the unpaid non-consolidated performance payment system ceased with effect from the staff reporting year ending on 31 March 2009.

The Forestry Commission's Senior Pay Committee determines performance pay for staff in the Senior Staff Grade. The Committee comprises the Chairman, Director General, Director Scotland, Director England and three other non-executive commissioners. Remaining Board members receive annual salaries paid in

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

Except for staff in the Senior Staff Grade, the bonus system ceased with effect from the staff reporting year ending on 31 March 2009.

Short-term employee benefits

Liabilities and expenses are recognised for holiday entitlements earned to 31 March but not yet taken.

1.4 Contingent liabilities

Forest Enterprise Scotland discloses contingent liabilities in accordance with IAS 37. It also discloses, for parliamentary reporting and accountability purposes, certain statutory and non-statutory contingent liabilities where the likelihood of economic benefits is remote, but which have been reported to Parliament in accordance with the requirements of HM Treasury's Managing Public Money.

Where the time value of money is material, contingent liabilities required to be disclosed under IAS 37 are stated at discounted amounts. Amounts reported to Parliament are separately noted at the amounts reported to Parliament.

1.5 Property, plant and equipment

Legal ownership of all land and buildings is vested in the Secretary of State with legal ownership of the timber, including uncut trees, vested in Forest Enterprise Scotland. Legal ownership of other tangible fixed assets is vested in Forestry Commission Scotland. Where Forest Enterprise Scotland is the principal beneficial user of assets owned by the Secretary of State or Forestry Commissioners these are treated as Property, Plant and Equipment assets of the agency. See also 'Land and Buildings Leased to Customers' at 1.7 below and 'Leases' at 1.12 below.

Until 31 March 2008 tangible fixed assets were revalued annually as at 31 March. With the agreement of HM Treasury, from 1 April 2008 onward revaluations shall take place on 1 April.

Biological Assets

Trees growing on Forest Estate Land are apportioned to Biological Assets or the Forest Estate. Apportionment is determined by a strategic assessment that identifies the primary Ministerial objective that the land is held to meet. Trees growing on areas that are primarily held in support of the Government's objective of making a positive contribution to the economy are apportioned to Biological Assets under IAS 41 (Agriculture). The remaining trees are apportioned to the Forest Estate and are outwith the scope of IAS 41. Both types of tree are accounted for in Forestry Commission Scotland.

Biological assets are measured at fair value less estimated point-of-sale costs, except where fair value cannot be measured reliably. External professional valuers undertake a full external professional valuation at five yearly intervals. As detailed above the valuation is carried out by Bidwells, Chartered Surveyors in accordance with RICS Appraisal and Valuation Standards (the 'Red Book') under the Existing Use or Fair Value models as appropriate for obtaining a fair value. In the intervening years between professional valuations, custom indices are used to restate land values. The indices are provided by Bidwells who are contracted to undertake the work until 2012.

Revaluation gains and losses are recognised in the Operating Cost Statement in the year of revaluation.

Holdings of plants and seed are accounted for by Forest Enterprise Scotland as biological assets under IAS 41. They are stated at the lower of current cost and net realisable value. Net realisable value is based on estimated selling prices, less further costs expected to be incurred to completion and disposal.

Dwellings and other buildings

Dwellings and other buildings are shown at fair value less accumulated depreciation. The threshold for capitalisation of buildings is £10,000.

Professionally qualified staff employed by Forest Enterprise Scotland undertake a full revaluation of dwellings and other buildings at five yearly intervals coinciding with that for the Forest Estate and Other Land (1 April). They follow the principles set out in the RICS Red Book and value on the basis of Open Market Value, Existing Use Value, Depreciated Replacement Cost or Discounted Cash Flow as appropriate under the RICS Standards for determining fair value. Suitably qualified external valuers review the work of internal professional valuers. A full valuation took place on 1 April 2008 and Bidwells, Chartered Surveyors, reviewed this.

The value of Dwellings is restated annually between full revaluations using indices provided by the District Valuer. Until 31 March 2009, Other Buildings were restated annually between full revaluations using indices provided by the District Valuer. Production of the indices for Other Buildings ceased in 2009. From 1 April 2009, the values of Other buildings are restated by professionally qualified staff employed by the Forestry Commission.

Expenditure on Infrastructure

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

Subsequent expenditure

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to Forest Enterprise Scotland and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the operating cost statement during the financial period in which they are incurred.

Non-current assets held for sale

Non-current assets are reviewed regularly to ensure that 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 assets, including surplus properties, take into account a number of factors including the social and environmental effects as well as marketability. Non-current assets are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale within twelve months of the reporting date is considered to be highly probable. Non-current assets held for sale are stated at the lower of carrying amount and fair value less costs to sell.

Plant and machinery

Forestry vehicles, machinery and equipment are shown at fair value less accumulated depreciation. Assets are revalued every five years by professionally qualified staff employed by Forest Enterprise Scotland. In the intervening years between professional valuations, values are restated using indices provided by the Office for National Statistics. The normal threshold for capitalisation of plant and machinery is £3,000.

Information technology

Information technology is shown at fair value less subsequent depreciation. Information technology (IT) 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 the costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Assets under construction are transferred to the appropriate property, plant and equipment category when completed and ready for use.

Revaluation reserve

Increases in the carrying amount arising on revaluation of property, plant and equipment are credited to the revaluation reserve in taxpayers' equity. Decreases that offset previous increases of the same asset are charged against the revaluation reserve directly in equity; all other decreases are charged to the operating cost statement. Each year the difference between depreciation based on the revalued carrying amount of the asset charged to the operating cost statement and depreciation based on the asset's original cost is transferred from 'revaluation reserve' to 'general fund'.

1.6 Depreciation

The value of trees not apportioned to Biological assets are not depreciated.

Assets under construction are not depreciated until the asset under construction is capable of operating in the manner intended by management.

Depreciation is provided on all other tangible fixed assets 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:

Land held under a finance lease	- unexpired term of the lease
Lease premium	- unexpired term of the lease
Freehold buildings	- over 1 to 60 years
Buildings held under a finance lease	- lesser of unexpired term of lease and 60 years
Plant and machinery	- over 3 to 16 years
Plant and machinery held under a finance lease	- lesser of unexpired term of lease and 16 years
Information technology	- over 4 to 20 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within the operating cost statement.

When revalued assets are sold, the amounts included in the revaluation reserve are transferred to the general fund.

1.7 Land and Buildings Leased to Customers

Assets leased to external parties under an operating lease is capitalised under the appropriate accounting policy. Operating lease income is accounted for on a straight line basis with any rental increases recognised during the period to which they relate.

1.8 Government grants receivable

Grants from the government are recognised at their fair value when there is reasonable assurance that the grant will be received and Forest Enterprise Scotland will comply with all attached conditions.

Government grants in respect of capital expenditure are credited to a government grant reserve. Subsequent revaluations are also taken to this reserve. Each year, an amount equal to the depreciation charge on the asset is released from the government grant reserve to the operating cost statement. Where the grant contributes only part of the cost of the fixed asset, only that proportion is released from the government grant reserve. Grants of a revenue nature are credited to income so as to match them with the expenditure to which they relate.

1.9 Subsidiaries, associates and joint ventures

Investments held in subsidiaries, associates or joint ventures that are outside the departmental boundary and where Forest Enterprise Scotland does not exercise in-year budgetary control are accounted for in accordance with paragraph 4.2.4 of the FReM 4.2.4. Where such an investment is in another public sector entity it is

reported at historical cost less any impairment. Where an investment is in another entity it is accounted for following the requirements of IAS 39 (see financial asset policy below).

1.10 Inventories

Consumable materials and supplies are stated at the lower of current cost and net realisable value. Net realisable value is based on estimated selling prices, less further costs expected to be incurred to completion and disposal.

1.11 Revenue recognition

Income comprises the fair value of the consideration received or receivable from forestry and related activities. Revenue is shown net of value-added tax, returns, rebates and discounts.

Forest Enterprise Scotland recognises revenue when the amount of revenue can be reliably measured and it is probable that future economic benefits will flow to it.

1.12 Leases

Where substantially all the risk and rewards of ownership of a leased asset (a Finance Lease) are borne by Forest Enterprise Scotland, the right to use the asset is initially recorded as a tangible fixed asset. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased asset and the present value of the minimum lease payments. A corresponding debt is recorded to the lessor represented by the minimum lease payments over the unexpired term of the lease. Where it is not possible to determine the interest rate implicit in the lease, discounting is on the basis of HM Treasury's rate of 3.5%.

Assets held under Finance Lease are depreciated over the shorter of the useful life of the asset and the term of the lease. The value of each underlying asset is revalued annually as though ownership of the asset was vested in Forest Enterprise Scotland. The policies and procedures for carrying out revaluations are those set out in 1.7 above.

Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in other payables. The interest element of the finance cost is charged to the operating cost statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Costs (net of any incentives received from the lessor) in respect of operating leases (any lease other than a Finance Lease) are charged on a straight-line basis over the lease term.

1.13 Grants payable

Grants payable to individuals and bodies by Forest Enterprise Scotland in accordance with its statutory powers and duties are accounted for as they are approved for payment.

1.14 Provisions

Forest Enterprise Scotland provides for present legal and constructive obligations which are of uncertain timing or amount at the reporting 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. The increase in the provision due to passage of time is recognised in the operating cost statement.

1.15 Value Added Tax (VAT)

Forest Enterprise Scotland is registered for VAT. In order to comply with the government accounting regulations and normal commercial practice, income and expenditure shown in the operating cost statement is net of VAT. Forest Enterprise Scotland 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 Forest Enterprise Scotland accounts as a debtor or creditor in the Statement of Financial Position. Irrecoverable VAT is charged to the operating cost statement in the year in which it is incurred.

1.16 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker responsible for allocating resources and assessing performance of the operating segments, has been identified as the FE Scotland Management Board.

1.17 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the Forest Enterprise Scotland operates ('the functional currency'). The functional currency and the presentational currency of the financial statements is pounds sterling.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the banking transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the operating cost statement.

1.18 Intangible assets

Intangible assets are valued initially at cost and subsequently at fair value using the revaluation model.

Where an active market does not exist, income generating assets are valued at the lower of depreciated replacement cost and value in use. Non income generating assets are carried at depreciated replacement cost. These valuation methods are considered to be a proxy for fair value.

(a) Computer software

Acquired computer software licences are initially capitalised on the basis of the costs incurred to acquire and bring to use the specific software and subsequently revalued to depreciated replacement cost. Acquired computer software licences are amortised over their estimated useful lives of five to seven years.

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Forest Enterprise Scotland are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use or sell it;
- there is an ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the software product include the software development employee costs and an appropriate portion of relevant overheads.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period

Computer software development costs recognised as assets are subsequently revalued to depreciated replacement cost and amortised over their estimated useful lives of five to seven years.

1.19 Impairment of non-financial assets

Assets that are subject to depreciation and amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The

recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Where an asset is not held for the purpose of generating cash flows, value in use is assumed to equal the cost of replacing the service potential provided by the asset, unless there has been a reduction in service potential. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets that suffer impairment are reviewed for possible reversal of the impairment at each reporting date.

1.20 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 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 reporting date. These are classified as non-current assets. Loans and receivables comprise trade and other receivables and cash and cash equivalents in the Statement of Financial Position.

(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 reporting 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 statement.

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

(b) Loans and receivables

Loans and receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of loans and receivables is established when there is objective evidence that Forest 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 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 reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the operating cost statement. Impairment losses recognised in the operating cost statement on equity instruments are not reversed through the income statement.

1.21 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 transferred to Forestry Commission Scotland and shown in its accounts within borrowings in current liabilities on the Statement of Financial Position.

1.22 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 reporting date. These are classified as non-current liabilities. Forest Enterprise Scotland's other financial liabilities comprise trade and other payables in the Statement of Financial Position.

Recognition and measurement

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

A financial liability is removed from the Statement of Financial Position when it is extinguished, that is when the obligation is discharged, cancelled or expired.

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

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

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

(b) Other financial liabilities

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

1.23 Prior Year Restatement

From 2009-10, expenditure relating to forest roads and restocking is disclosed in the Forestry Commission Scotland Accounts. In accordance with IAS 8, the 2008-09 comparatives have been adjusted to account for this change in accounting methodology. A reconciliation of restated balances is provided in Note 28.

1.24 Effective in these Financial Statements

All International Financial Reporting Standards, Interpretations and Amendments effective at 31 March 2010 have been adopted in these statements, taking account of the specific interpretations and adaptations included within the FReM.

1.25 Effective for future Financial Years

The following IFRSs, IFRIC Interpretations and Amendments, applicable to Forestry Enterprise Scotland, have been issued but are not yet effective and have not been adopted early.

IAS 24 Related Party Transactions (effective 1 January 2011) – The amendment exempts full disclosure of transactions with state-controlled entities and is not expected to impact the FReM's current exemption. IAS 24 also extends the definition of a related party to include relationships where joint control exists.

IFRS 9 Financial Instruments (effective 1 January 2013) – IFRS 9 replaces IAS 39 and introduces new requirements for the classification and measurement of financial assets. Further proposals are to be introduced during 2010 and Forest Enterprise Scotland will undertake an assessment of the impact of IFRS 9 once these are known.

From 2010-11, the FReM includes other changes including removal of the Cost of Capital. This affects the charge to the Income and Expenditure Statement and the Statement of Changes in Taxpayer's Equity (where the sum is reversed). For 2009-10 the charge was £1,670,000.

NOTE 2 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Critical accounting judgements and key sources of estimation uncertainty

In the application of Forest Enterprise Scotland's accounting policies, judgements, estimates and assumptions need to be made about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying the accounting policies

The following are the critical judgements and estimates that have been made in the process of applying Forest Enterprise Scotland's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

NOTE 3 FIRST TIME ADOPTION OF IFRS

	General Fund	Revaluation Reserve	Government Grant Reserve	Total Reserves
	£000	£000	£000	£000
Taxpayers' equity at 1 April 2008 under UK GAAP	40,411	13,025	51	53,487
Adjustments for:				
IAS 19 Pay in lieu of untaken annual leave 2007-08 accrual	(1,499)	-	-	(1,499)
IAS 19 Performance related pay bonus accrual 2007-08	(165)	-	-	(165)
IAS 2 Inventories	(663)	-	-	(663)
IAS 17 Leases	(1,496)	-	-	(1,496)
Taxpayers' equity at 1 April 2008 under IFRS	36,588	13,025	51	49,664
Taxpayers' equity at 31 March 2009 under UK GAAP	37,600	8,456	371	46,427
Adjustments for:				
1 April 2008 IFRS adjustments	(3,823)	-	-	(3,823)
IAS 19 Pay in lieu of untaken annual leave decrease	2	-	-	2
IAS 19 Performance related pay bonus accrual decrease	142	-	-	142
IAS 2 Inventories	(243)	-	-	(243)
IAS 17 Leases	(32)	-	-	(32)
Taxpayers' equity at 1 April 2009 under IFRS	33,646	8,456	371	42,473
				£000
Net operating deficit for 2008-09 under UK GAAP				(31,522)
Adjustments for:				
IAS 19 Pay in lieu of untaken annual leave accrual 2007-08 reversal				1,499
IAS 19 Pay in lieu of untaken annual leave accrual 2008-09				(1,497)
IAS 19 Performance related pay bonus accrual 2007-08 reversal				165
IAS 19 Performance related pay bonus accrual 2008-09				(23)
IAS 17 Leases				(32)
Notional cost of capital decrease				107
Net operating deficit for 2008-09 under IFRS				(31,303)

No cash equivalents were held by the Agency at 1 April 2008 or 31 March 2009

2008-09 balances have subsequently been restated due to a change in accounting policy relating to roads and restocking expenditure. A reconciliation of restated balances is provided at Note 28.

IFRS adjustments rationale:

IAS 19 Pay in lieu of untaken annual leave accrual 2007-08 and 2008-09 - in accordance with IAS 19 Employee Benefits, accruals have been made in respect of carried forward employee annual leave at 31 March 2008 and 31 March 2009.

IAS 19 Performance related pay bonus accrual 2007-08 and 2008-09 - in accordance with IAS 19 Employee Benefits, accruals have been made in respect of unpaid performance related pay bonuses for the performance year at 31 March 2008 and 31 March 2009.

IAS 17 Leases – Leased land under a partnership agreement with forest holidays has been re classified and moved from trade receivables to other land in FC Scotland accounts.

IAS 2 Inventories – Inventories of timber felled have been restated at Fair value less cost of sales under IFRS.

Notional cost of capital – the notional cost of capital has been recalculated based on IFRS total assets less cash and cash equivalents, less total liabilities at 31 March 2009.

NOTE 4 SEGMENT INFORMATION

Management has determined that Forest Enterprise Scotland operates as one operating segment, with results reviewed by the chief operating decision maker for Forest Enterprise Scotland as a whole.

NOTE 5 STAFF NUMBERS AND RELATED COSTS

	2009-10	2008-09
	£000	£000
Wages and Salaries	23,751	22,644
Social Security Costs	1,689	1,608
Other pension costs	4,101	3,963
Agency/temporary staff	37	67
	<u>29,578</u>	<u>28,282</u>
Less recoveries in respect of outward secondments	(23)	(30)
Total	<u>29,555</u>	<u>28,252</u>

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

For 2009-10, employers' contributions of £4,101,000 were payable to the PCSPS (2008-09 £3,965,000) at one of four rates in the range 16.7% to 24.3% of pensionable pay, based on salary bands. The Scheme Actuary reviews employer contributions usually every four years following a full scheme valuation. From 2010-11, the rates will be in the range 16.7% to 24.3%. The contribution rates are set to meet the cost of the benefits accruing during 2009-10 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 £16,400 were paid to one or more of the 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 £1,200 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 or 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 total additional accrued pension liabilities in the year amounted to £1,767 (2008-09: £3,062).

5 (b) Average number of persons employed

Average number of whole-time equivalent persons employed:

	2009–10		2008–09
	Permanently employed staff Number	Others Number	Total Number
Directly employed	892	40	932
Other	-	1	1
Total	892	41	933

5 (c) Benefits in kind are provided under the following schemes:

- (i) Advances of salary for house purchase
- (ii) Advances of salary for purchase of public transport and car park season tickets
- (iii) Advances of salary for purchase of sports/health club membership
- (iv) Advances of salary for purchase of IT and sports/health equipment, including bicycles.
- (v) Car provision for employees scheme.

Each scheme is subject to conditions and financial limits.

NOTE 6 OPERATING DEFICIT

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

	Note	2009-10	2008-09
		£000	£000
Hire of plant and equipment		3,742	3,310
Operating lease rentals -			
Land & buildings		153	141
Plant and machinery		352	358
Auditors' remuneration		70	63
Shared central services		5,485	5,297
<i>Non-cash costs:</i>			
Provisions –			
Provided in year	18	21	1,702
Provisions not required written back	18	(2,558)	(130)
Provisions utilised in year	18	(194)	(332)
Unwinding of discount	18	24	(38)
Depreciation of property, plant and equipment	9	2,095	1,977

Expenditure includes the cost of shared central services provided to Forest Enterprise Scotland. As part of the Forestry Devolution Review, shared central services are defined as those where a single provider is considered the best solution, in terms of practicality, cost of 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 and communications technology
- Human resources, including forestry training services
- Communications
- Grants and licences
- Operational support services

For each of the shared services, a service board was formed composed of “intelligent buyers” from the countries and Forest Research together with the service provider. The boards have joint accountability for the operation of these services 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.

NOTE 7 GAIN/(LOSS) ON SALE OF PROPERTIES

	2009-10	2008-09
	£000	£000
Income	373	885
Less book value	<u>(2,115)</u>	<u>(1,287)</u>
	(1,742)	(402)
Less disposal costs		
External costs	(1,959)	(1,771)
Administration expenses	-	-
	<u>(1,959)</u>	<u>(1,771)</u>
Loss on sale of properties	<u>(3,701)</u>	<u>(2,173)</u>

NOTE 8 COST OF CAPITAL

Notional cost of capital based on 3.5% of average total assets, less any balances held with the Office of Paymaster General, less total liabilities employed in 2009-10 amounted to £1,670,000 (2008-09: £1,518,000).

NOTE 9 PROPERTY, PLANT AND EQUIPMENT

	Dwellings and Other Buildings £000	VME £000	OME £000	POA & AUC £000	Total £000
Valuation:					
At 1 April 2009	30,231	12,095	323	2,191	44,840
Additions	144	6,548	28	2,623	9,343
Transfers	1,129	-	-	(1,129)	-
Transfers to NCAHFS	(175)	-	-	-	(175)
Disposals	(1,705)	(1,170)	(28)	-	(2,903)
Revaluation	1,168	1,339	39	-	2,546
At 31 March 2010	30,792	18,812	362	3,685	53,651
Depreciation:					
At 1 April 2009	5,315	6,849	179	-	12,343
Provided during year	704	1,335	56	-	2,095
Transfers	4	-	-	-	4
Transfers to NCAHFS	(66)	-	-	-	(66)
Disposals	(90)	(1,042)	(28)	-	(1,160)
Revaluation	238	405	16	-	659
At 31 March 2010	6,105	7,547	223	-	13,875
Net book value at 31 March 2010	24,687	11,265	139	3,685	39,776
Net book value at 1 April 2009	24,916	5,246	144	2,191	32,497
Net book value at 1 April 2008	30,572	5,502	119	888	37,081
Owned	24,653	7,197	139	3,685	35,674
Finance leased	34	4,068	-	-	4,102
Net book value at 31 March 2010	24,687	11,265	139	3,685	39,776

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 2009-10, 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.

Vehicles, Machinery and Equipment (VME) were valued as at 31 March 2005. Professionally qualified staff employed by the Forestry Commission valued specialist forestry machinery. All other assets were valued using indices provided by the Office of National Statistics (ONS). In the intervening years, revaluations have been on the basis of the ONS indices or internal professional staff as appropriate. At 31 March 2010, all light vehicles held under finance leases were professionally valued by CAP, a specialist provider of valuation data on vehicles. Cars and Light Vehicles owned by the Forestry Commission were valued by internal staff, taking account of the CAP valuation data. Specialist forestry machinery (owned and held under finance lease) were valued by professionally qualified staff employed by the Forestry Commission.

VME additions include purchases of £1,836,000 and £4,712,000 reclassified from operating to finance leases.

Office machinery and equipment (OME) was restated to a current value of £139,000 as at 31 March 2010 using an index provided by the Office for National Statistics applied to the entire asset class.

Depreciation expense of £2,095,000 (2008-09: £1,977,000) has been charged in the income and expenditure account.

	Dwellings and Other Buildings	VME	OME	POA & AUC	Total
	£000	£000	£000	£000	£000
Valuation:					
At 1 April 2008	35,247	12,613	277	888	49,025
Additions	34	782	67	1,872	2,755
Transfers	109	-	45	(327)	(173)
Disposals	(323)	(2,036)	(63)	-	(2,422)
Write-off	-	-	-	(242)	(242)
Revaluation	(4,836)	736	-	-	(4,100)
Impairment	-	-	(3)	-	(3)
At 1 April 2009	30,231	12,095	323	2,191	44,840
Depreciation:					
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)
At 1 April 2009	5,315	6,849	179	-	12,343
Net book value					
At 1 April 2009	24,916	5,246	144	2,191	32,497
At 1 April 2008	30,572	5,502	119	888	37,081

NOTE 10 INVESTMENTS

	£000
As at 1 April 2008	1,833
Revaluation	-
As at 1 April 2009	1,833
Revaluation	-
As at 31 March 2010	1,833

The investment represents Forest Enterprise 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 11 BIOLOGICAL ASSETS

Non-current biological assets comprise of plant and seed.

The carrying value of total biological assets was £795,000 at 31 March 2010 (2008-09: £686,000).

NOTE 12 NON-CURRENT ASSETS HELD FOR SALE

The following assets related to surplus properties have been presented as held for sale following the approval for sale by the management of Forest Enterprise Scotland. The completion dates for sale are expected to be within the 12 months to 31 March 2011.

	Dwellings and Other Buildings	Total
	£000	£000
Opening balance at 1 April 2008	1,332	1,332
Transfers from PPE	234	234
Disposals	(1,067)	(1,067)
Impairments	-	-
Balance at 1 April 2009	499	499
Transfers from PPE	109	109
Disposals	(499)	(499)
Impairments	(17)	(17)
Closing balance at 31 March 2010	92	92

NOTE 13 FINANCIAL INSTRUMENTS

13 (a) Investments in non-public sector bodies (Available for sale financial assets)

	£000
At 1 April 2008	1,833
Additions	-
Net gains/losses transfer from equity	-
Net gains/losses transfer to equity	-
At 1 April 2009	1,833
Additions	-
Net gains/losses transfer from equity	-
Net gains/losses transfer to equity	-
At 31 March 2010	1,833

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

13 (b) Financial Instruments by Category

	31 March 2010			1 April 2009			1 April 2008		
	Loans and Receivables	Available- for-Sale	Total	Loans and Receivables	Available- for-Sale	Total	Loans and Receivables	Available- for-Sale	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Assets as per statement of financial position									
Available-for-sale financial assets	-	1,833	1,833	-	1,833	1,833	-	1,833	1,833
Trade & other receivables (excluding prepayments)	13,474	-	13,474	11,585	-	11,585	9,692	-	9,692
Cash & cash equivalents	1	-	1	2	-	2	7	-	7
Total	13,475	1,833	15,308	11,587	1,833	13,420	9,699	1,833	11,532

	31 March 2010		1 April 2009		31 March 2008	
	Other financial liabilities	Total	Other financial liabilities	Total	Other financial liabilities	Total
	£000	£000	£000	£000	£000	£000
Liabilities as per the Statement of Financial Position						
Finance Lease Liabilities	3,470	3,470	177	177	-	-
Trade and other payables excluding statutory liabilities	5,707	5,707	5,212	5,212	3,225	3,225
Total	9,177	9,177	5,389	5,389	3,225	3,225

13 (c) 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.

Due to the way in which government departments are financed, Forest Enterprise Scotland is not exposed to the degree of financial risk faced by business entities.

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 internal ratings and parameters set by Forest Enterprise Scotland.

Refer to Note 15 for further analysis of credit risk.

Liquidity risk

The Forestry Commission makes provision for the use of resources by Forest Enterprise Scotland for revenue and capital purposes each financial year. The Scottish Government makes provision for the Forestry Commission's use of resources in a Consolidated Fund 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 Consolidated Fund Act. The Act also specifies an overall cash authorisation 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 the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

	Less than 1 year	Between 1 and 5 years	Over 5 years
	£000	£000	£000
At 31 March 2010			
Finance lease liabilities	1,240	2,113	117
Trade and other payables excluding statutory liabilities	5,707	-	-
Total	7,217	2,113	117

	Less than 1 year £000	Between 1 and 5 years £000	Over 5 years £000
At 1 April 2009			
Finance lease liabilities	38	23	116
Trade and other payables excluding statutory liabilities	5,212	-	-
Total	5,250	23	116
	Less than 1 year £000	Between 1 and 5 years £000	Over 5 years £000
At 1 April 2008			
Finance lease liabilities	-	-	-
Trade and other payables excluding statutory liabilities	3,225	-	-
Total	3,225	-	-

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. However, under the regulatory Reform (Forestry) Order 2006, with Treasury approval, the Agency may form or participate in the forming of, a body corporate, invest in a body corporate and provide loans. To date this power has not been exercised.

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 cash flows 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.

13 (d) Capital risk management

The Agency's objectives when managing its capital structure are to maintain its ability to continue to provide benefits for stakeholders and to maintain an optimal capital structure to safeguard Taxpayers' Equity.

13 (e) Fair Value Estimation

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

NOTE 14 INVENTORIES

	31 March 2010 £000	1 April 2009 £000	1 April 2008 £000
Timber	945	1,274	1,430
Consumable materials, supplies and livestock	537	723	584
Total	1,482	1,997	2,014

NOTE 15 TRADE AND OTHER RECEIVABLES

15(a) Analysis by type

	31 March 2010	1 April 2009	1 April 2008
	£000	£000	£000
Current			
Trade receivables	11,860	10,277	8,371
Less provision for impairment of trade receivables	(4)	(21)	(44)
Trade receivables – net	11,856	10,256	8,327
Other trade receivables	291	1	-
House purchase loans to employees	21	24	14
Prepayments and accrued income	915	3,186	5,430
Total	13,083	13,467	13,771
Non Current			
Partnership loan	1,150	1,150	1,150
House purchase loans to employees	156	154	201
Total Non Current Receivables	1,306	1,304	1,351
Total	14,389	14,771	15,122

The Advances of Salary for House Purchase scheme had loans with an outstanding balance of £2,500 or more relating to 14 members of staff at 31 March 2010 (2008-09: 15 employees). The total outstanding value of all loans was £177,000 (2008-09: £178,000). Such loans are unsecured, interest free and typically repayable over 10 years, with an optional 2 year deferral period.

The carrying amounts of trade and other receivables are a reasonable approximation of fair value.

As of 31 March 2010, trade receivables of £9,782,000 (2008-09: £7,106,000) were fully performing and not past due or impaired and provided for.

As of 31 March 2010, trade receivables of £2,088,000 (2008-09: £3,150,000) were past due but not impaired. These relate to a number of customers for whom there is no recent history of default.

The ageing analysis of these trade receivables is as follows:

	31 March 2010	1 April 2009	1 April 2008
	£000	£000	£000
Less than one month	219	1,525	595
One to two months	1,713	1,459	450
Two to three months	1	20	10
More than three months	155	146	38
	2,088	3,150	1,093

As of 31 March 2010, trade receivables totalling £4,000 (2008-09: £21,000) were impaired and also provided for. These relate to seven debts analysed as follows:

	31 March 2010	1 April 2009	1 April 2008
	£000	£000	£000
Legal proceedings underway	4	20	5
Other	-	1	39
	4	21	44

The ageing of the trade receivables provided for is as follows

	31 March 2010	1 April 2009	1 April 2008
	£000	£000	£000
Less than one month	-	-	-
One to three months	-	-	-
More than three months	4	21	44
	4	21	44

Movements in the provision for impairment of trade receivables are as follows:

	2009-10
	£000
At 1 April 2008	44
Provision for receivables impairment	17
Receivables written off during the year as uncollectable	(35)
Unused amounts reversed	(5)
At 1 April 2009	21
Provision for receivables impairment	-
Receivables written off during the year as uncollectable	(17)
Unused amounts reversed	-
At 1 April 2010	4

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. Forest Enterprise Scotland does not hold any collateral as security.

The carrying amounts of trade and other receivables are denominated in the following currencies:

	31 March 2010	1 April 2009	1 April 2008
	£000	£000	£000
GBP Sterling	14,389	14,771	15,122
Euro	-	-	-
US Dollar	-	-	-
	14,389	14,771	15,122

15(b) Intra-Government Balances

	Current			Non-Current		
	31 March 2010 £000	1 April 2009 £000	1 April 2008 £000	31 March 2010 £000	1 April 2009 £000	1 April 2008 £000
Balances with other central government bodies	31	-	134	-	-	-
Balances with local authorities	58	162	119	-	-	-
Balances with other public corporations and trusts	8	-	-	-	-	-
Intra-government balances	97	162	253	-	-	-
Balances with bodies external to government	12,986	13,305	13,518	1,306	1,304	1,351
Total	13,083	13,467	13,771	1,306	1,304	1,351

NOTE 16 CASH AND CASH EQUIVALENTS

	£000
Balance at 1 April 2008	7
Net change in cash and cash equivalent balances	(5)
Balance at 1 April 2009	2
Net change in cash and cash equivalent balances	(1)
Balance at 31 March 2010	1

	31 March 2010 £000	1 April 2009 £000	1 April 2008 £000
The following balances were held at:-			
Office of HM Paymaster General	1	2	7
Commercial banks and cash in hand	-	-	-
Short term investments	-	-	-
Total	1	2	7

NOTE 17 TRADE AND OTHER PAYABLES

17(a) Analysis by type

	31 March 2010 £000	1 April 2009 £000	1 April 2008 £000
Current:			
Trade payables	3,646	2,993	2,909
Other payables	8	9	42
Taxation and social security costs	105	112	-
Accruals and deferred income	3,200	3,597	3,709
Current part of finance leases	1,239	38	-
	8,198	6,749	6,660
Non-current:			
Finance leases	2,231	139	-
	10,429	6,888	6,660

The carrying amounts of trade and other liabilities are a reasonable approximation of their fair value.

The carrying amounts of trade and other payables are denominated in the following currencies:

	31 March 2010 £000	1 April 2009 £000	1 April 2008 £000
GBP Sterling	10,429	6,888	4,996
Euro	-	-	-
US Dollar	-	-	-
	10,429	6,888	4,996

17(b) Intra-Government Balances

	Current			Non-Current		
	31 March 2010 £000	1 April 2009 £000	1 April 2008 £000	31 March 2010 £000	1 April 2009 £000	1 April 2008 £000
Balances with other central government bodies	75	123	7	-	-	-
Balances with local authorities	11	106	17	-	-	-
Balances with public corporations and trading funds	9	1	1	-	-	-
Intra-government balances	95	230	25	-	-	-
Balances with bodies external to government	8,103	6,518	6,635	2,231	139	-
Total	8,198	6,748	6,660	2,231	139	-

NOTE 18 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)
Balance at 1 April 2009	303	2,600	21	2,924
Provided in the year	3	3	15	21
Provisions not required written back	-	(2,548)	(10)	(2,558)
Provisions utilised in the year	(192)	(2)	-	(194)
Unwinding of discount	24	-	-	24
Balance at 31 March 2010	138	53	26	217

Analysis of expected timing of discounted cash flows for balance at 31 March 2010:-

	Early departure costs £000	Public Legal Claims £000	Other Legal Claims £000	Total £000
In the remainder of the Spending Review period to 31 March 2011	75	53	26	154
Between 1 April 2011 and 31 March 2016	62	-	-	62
Between 1 April 2016 and 31 March 2021	1	-	-	1
Thereafter	-	-	-	-
Balance at 31 March 2010	138	53	26	217

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.

Public and other 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. Public legal claims are those claims from the public for personal injury or damage caused to property, and other legal claims are for compensation for injury to employees.

NOTE 19 RESERVES

19(a) General Fund

	2009-10	2008-09
	£000	Restated £000
Balance at 1 April	33,646	36,588
Movement in year:		
Net deficit for the year	(7,833)	(8,992)
Notional cost of capital	1,670	1,518
Cash deficit funded by Forestry Commission	8,164	4,538
Transfers of property, plant and machinery to other Forestry Bodies	(4)	32
Transferred to general fund (realised element of revaluation reserve)	395	118
Revaluation of timber stocks	-	(243)
Timing between accrual and cash VAT	362	(129)
Non-cash inter-country transfers	35	216
Balance at 31 March	36,435	33,646

19(b) Revaluation reserve

	2009-10	2008-09
	£000	£000
Balance at 1 April	8,456	13,025
Arising on revaluation during the year:		
Dwellings and other buildings	913	(4,836)
VME	934	385
OME	-	-
	1,847	(4,451)
Transferred to general fund (realised element of revaluation reserve)	(395)	(118)
Write off of Revaluation Reserve	286	-
Balance at period end	10,194	8,456

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

	2009-10	2008-09
	£000	£000
Dwellings and other buildings	(395)	(118)
	(395)	(118)

19(c) Donated asset reserve

	2009-10	2008-09
	£000	£000
Balance at 1 April	-	-
Additions during the year	102	-
Revaluation	-	-
Release to I&E	-	-
Balance at 31 March	102	-

19 (d) Government grant reserve

	UK £000	EU £000	2009-10 Total £000	2008-09 £000
Balance at 1 April	371	-	371	51
Additions during the year	620	-	620	320
Revaluations	-	-	-	-
Release to I&E	-	-	-	-
Balance at 31 March	991	-	991	371

NOTE 20 CAPITAL COMMITMENTS

Amounts contracted but not provided for in the accounts amounted to £2,981,000. This relates to outstanding work on the construction of the new Glentress Peel Visitor Centre (£2,886,000), 2 new toilet blocks (£50,000) and 2 new forest stores (£26,500); and the enhancement of David Marshall Lodge Visitor Centre (£18,400).

	31 March 2010 £000	1 April 2009 £000	1 April 2008 £000
Property, plant and equipment	2,981	778	1,062

NOTE 21 COMMITMENTS UNDER LEASES

21(a) Operating leases

Total future minimum lease payments under operating leases are given in the table below for each of the following periods.

	31 March 2010 £000	1 April 2009 £000	1 April 2008 £000
Buildings:			
Not later than one year	115	107	117
Later than one year and not later than five years	341	318	383
Later than five years	317	122	132
	773	547	632

	31 March 2010 £000	1 April 2009 £000	1 April 2008 £000
Land:			
Not later than one year	39	34	26
Later than one year and not later than five years	140	133	91
Later than five years	494	488	354
	673	655	471

	31 March 2010 £000	1 April 2009 £000	1 April 2008 £000
Plant and machinery			
Not later than one year	352	358	461
Later than one year and not later than five years	252	1,329	972
Later than five years	-	-	-
	604	1,687	1,433

21(b) Finance leases

Total future minimum lease payments under finance leases are given in the table below for each of the following periods.

	31 March 2010	1 April 2009	1 April 2008
	£000	£000	£000
Obligations under finance leases comprise:			
Buildings			
Not later than one year	4	4	4
Later than one year and not later than five years	15	15	15
Later than five years	184	188	192
	203	207	211
Less interest elements	(81)	(85)	(87)
Total	123	122	124
Plant and machinery			
Not later than one year	1,302	37	37
Later than one year and not later than five years	2,206	19	56
Later than five years	7	-	-
	3,515	56	93
Less interest elements	(167)	(1)	(3)
Total	3,348	55	90

NOTE 22 OTHER FINANCIAL COMMITMENTS

There no other financial commitments as at 31 March 2010 (2008-09: £nil).

NOTE 23 LEASE RECEIVABLES

23(a) Operating leases

The future minimum lease payments receivable under non-cancellable operating leases are as follows:

	2009-10	2008-09
	£000	£000
Not later than one year	44,026	41,371
Later than one year and not later than five years	173,758	163,887
Later than five years	2,772,959	2,670,846
	2,990,743	2,876,104

Forest Enterprise Scotland leases land and buildings under agreements that terminate between April 2010 and December 2099.

23(b) Finance leases

Total future minimum lease receivables under the Forest Holiday partnership buildings lease are give in the table below for each of the following periods:

	2009-10	2008-09
	£000	£000
Not later than one year	68	66
Later than one year and not later than five years	273	264
Later than five years	4,502	4,356
Total	4,843	4,686
Less interest elements	(851)	(913)
Total	3,992	3,773

NOTE 24 CONTINGENT LIABILITIES DISCLOSED UNDER IAS 37

At 31 March 2010, there were contingent liabilities totalling £16,680 (2008-09: £19,500) pertaining to accidents, damages to properties and employers liability claims. Legal advice indicates that some claims can be successfully resisted and that no damages are likely to be awarded. In the other cases no recent contact has been made by the claimants.

NOTE 25 LOSSES AND SPECIAL PAYMENTS

	2009-10		2008-09	
	Number	£000	Number	£000
Losses total	12	24	21	46
Special payments total	27	40	40	1,700
	39	64	61	1,746

NOTE 26 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, Forestry 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.

27.a Sales of goods and services

The value of purchases from Forest Enterprise Scotland in the year to 31 March 2010 were:

	2009-10
	£000
BSW Timber plc	1,613
Howie Forest Products Ltd	5,226
Total	6,839

Year end balances arising from sale of goods and services:

Amounts owing to Forest Enterprise Scotland at 31 March 2010 were:

	2009-10
	£000
BSW Timber plc	1,112
Petersmuir Sawmill	4
Howie Forest Products Ltd	1,362
Total	2,478

The above transactions, for timber sale occurred on an arm's length basis and are disclosed as Hamish Macleod, a non-executive Forestry Commissioner, is Joint Managing Director of Howie Forest Products Ltd. Petersmuir Sawmill is owned by BSW, and BSW acquired Howie Forest Products Ltd in November 2009, therefore transactions with BSW from this date have also been disclosed.

26.b Other

Michael Ansell, Director – Forestry Business Units, received a Farm Woodland Premium Scheme grant of £576 and payments of £2,383 under the Scottish Forestry Grant Scheme during the year. There were no further payments due at 31 March 2010.

26.c Key management compensation

Refer to the Remuneration Report for further details of the remuneration of Board members.

26.d Loans to related parties

	2009-10	2008-09
	£000	£000
Loans to key management personnel		
Balance at 1 April	7	8
Loans repaid during year	(1)	(1)
Balance at 31 March	6	7

The above balance relates to one member of key management personnel (2008-09: One). House purchase loans to key management personnel are provided on the same terms and conditions as other Forestry Commission staff members. Such advances of salary are unsecured, interest free and typically repayable over 10 years, with an optional 2 year deferral period.

£Nil provision has been made at 31 March 2010 (2008-09: £nil) in relation to the loans made to key management personnel.

NOTE 27 THIRD PARTY ASSETS

Forestry Enterprise Scotland rents land in Lael Forest to Npower Renewables Ltd, for use in its hydro electric business. As part of the rental agreement, Npower Renewables Ltd credited Forest Enterprise with a restoration bond of £10,000 at the lease commencement. This bond must be kept by Forest Enterprise Scotland in an interest bearing account, separate from Forest Enterprise's own assets. On termination of the lease, the bond along with all interest accrued must be repaid to Npower Renewables Ltd for the purpose of restoring the land to its original condition.

In the event that Npower Renewables Ltd fail to carry out the restoration works to an agreed standard or within an agreed timescale, Forest Enterprise Scotland will recover all reasonable costs of carrying out the restoration work from the amount held.

	2009-10 Net £000	Gross Inflows £000	Gross Outflows £000	2008-09 Net £000
Total	10	10	-	-

NOTE 28 RECONCILIATION OF PRIOR YEAR RESTATEMENT

From 2009-10, expenditure relating to forest roads and restocking is disclosed in the Forestry Commission Scotland Accounts. The 2008-09 comparatives have been adjusted to account for this change in accounting methodology.

	£000
Forest roads expenditure 2008-09	12,272
Restocking expenditure 2008-09	10,039
Total	22,311

The following balances were restated:-

	Note	Per 2008-09 Shadow Accounts £000	Restated Balance £000	Adjustment £000
Income and Expenditure Statement				
Operating expenditure	I&E	(10,611)	11,700	22,311
Net deficit for the year	I&E, 3	(31,303)	(8,992)	22,311
Statement of Financial Position				
General fund				
Balance at 1 April 2008	SFP, SOCE, 19	36,588	36,588	-
Net deficit for the year		(31,303)	(8,992)	22,311
Cash deficit funded by the Forestry Commission	SOCE, 19	26,849	4,538	(22,311)
Balance at 1 April 2009	SFP, SOCE, 19	33,646	33,646	-
Statement of Cash Flows				
Net deficit for the year	CF	(31,303)	(8,992)	22,311
Cash deficit funded by the Forestry Commission	CF	26,849	4,538	(22,311)

NOTE 29 EVENTS AFTER 31 MARCH 2010

In accordance with the requirements of IAS 10, events after 31 March 2010 are considered up to the date on which the accounts are authorised for issue. These accounts were authorised for issue on 28 July 2010.

Non-adjusting events after 31 March 2010: It was announced in the Budget on 22 June 2010 that the Government intends to adopt the Consumer Price Index (CPI) for the indexation of public service pensions from April 2011. This will have an impact upon the future operation of the pension schemes that Forest Enterprise Scotland provides to employees.



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 statement of accounts for the financial year ended 31 March 2010, and subsequent years, 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 of accounts are prepared.
3. The accounts shall be prepared so as to give a true and fair view of the income and expenditure and cash flows for the financial year, and of the state of affairs as at the end of the financial year.
5. This direction shall be reproduced as an appendix to the accounts and supersedes that dated 11 May 2006.

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

Signed by the authority of the Scottish Ministers

Dated: 23 July 2010