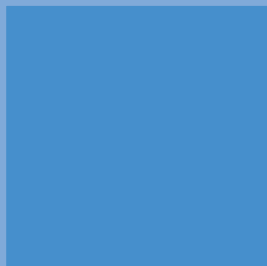


Accounts for the year ended 31 March 2002



1. Financial management, planning and investment.
2. Experimental and practical advice for land reclamation [Tony Hutchings].
3. Inspecting pollens to be used in controlled pollination work as part of the Sitka spruce breeding strategy.
4. Stacked produce awaiting collection at rideside.



Foreword	106
Statement of Forestry Commission's and Chief Executive's Responsibilities	109
Statement on Internal Control	110
The Certificate of the Comptroller and Auditor General to the House of Commons	111
Income and Expenditure Account	113
Statement of Total Recognised Gains and Losses	113
Balance Sheet	114
Cash Flow Statement	115
Notes to the Accounts	116
Accounts Direction given by the Treasury	124

FOREWORD

1. Status

Forest Research became an Executive Agency of the Forestry Commission with effect from 1 April 1997. It undertakes the major part of the Commission's research and development programmes as well as providing survey, monitoring and scientific services.

Forest Research remains part of the Forestry Commission, which is a cross border Government Department responsible for forestry throughout Great Britain. The relationship between Forest Research, the Forestry Commissioners and Forestry Ministers is described in the Framework Document published February 1997.

Prior to April 1997, Forest Research was managed as a Division of the Forestry Commission and its assets and financial transactions were included in the departmental accounts presented in the Forestry Commission Annual Report and Accounts.

From 1 April 1997, the Agency assumed ownership of and responsibility for the assets and liabilities appropriate to the research activity which were included in the Forestry Commission Statement of Assets and Liabilities as at 31 March 1997. It also assumed ownership of the building assets it occupies, which were previously owned and managed on behalf of the Forestry Commission by the Forest Enterprise agency, with appropriate intra-departmental charges made, and recorded on the Forest Enterprise balance sheet as at 31 March 1997.

Two organisational reviews took place during 2001 and 2002 that impact of The Agency's status and operational arrangements.

In line with normal arrangements for agencies, Forest Research underwent a Quinquennial Review, stage one of which was completed in January 2002, while between May 2001 and August 2002 an interdepartmental group carried out a review of the Forestry Commission. This reviewed the devolution arrangements for delivering sustainable forestry policies in England, Scotland and Wales and the UK's international forestry commitments.

On conclusion of stage one of the Forest Research Quinquennial Review Forestry Ministers decided that the Agency should retain its executive agency status for a further five years. The devolution review concluded that Forest Research should continue as a GB-wide agency of the Forestry Commission but new arrangements should be set up, with an enhanced role for the devolved administrations through the National Offices in England, Scotland and Wales in determining research priorities and specifying programmes.

The stage two report of the Agency's Quinquennial Review, which addresses the issues on implementing the outcomes of the stage one review and the devolution review, has been submitted to Ministers for consideration.

Under the Framework Document, Forest Research is funded from the sale of its services to both the Forestry Commission and external customers. Any annual surplus or deficit is counted in the Forestry Commission's net funding requirement.

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

2. Aims and Objectives

The aims of Forest Research are set out in the Framework Document. They are to provide:

- a capability to conduct research and development, surveys and related services relevant to the forest industry;
- authoritative advice to support the development and implementation of the Government's forestry policy.

The objectives of Forest Research are listed on page 5 in the Annual Report.

3. Review of Activities

This is Forest Research's fifth year of operation as an Agency. Forest Research produced a net operating surplus of £569,000 on its Income and Expenditure Account, excluding the notional cost of capital. A comparison of income and expenditure with the previous year's results shows that:

- staff costs increased by £140,000 (2%)
- other management costs increased by £59,000 (3%)
- materials and service costs reduced by £147,000 (5%)
- income from external customers increased by £142,000 (13%).

The net surplus for the year after cost of capital of £556,000 was £13,000.

After adjusting the total surplus for items not involving the movement of cash and for capital expenditure and income, the net cash surplus transferred to the Forestry Commission was £856,000.

4. Financial Objective

Forest Research's financial objective set out in the Framework Document is to recover the full economic costs, including cost of capital, of its operations from the sale of services to customers.

5. Post Balance Sheet Events

There are no post balance sheet events other than the outcome of the Forestry Devolution Review noted at paragraph 1.

6. Supplier Payment Policy

Forest Research observes the principles of The Late Payment of Commercial Debts (Interest) Act 1998. Unless otherwise stated in the contract, we aim to pay within 30 days from the receipt of goods and services, or the presentation of a valid invoice, whichever is the later. An analysis for 2001-02 indicates that 99.2% of payments to suppliers, including those made using the Government Procurement Card, were paid within the due date.

Arrangements for handling complaints on payment performance are notified to suppliers on orders.

7. Employment Policies

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

8. Management

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

Rt. Hon. Nick Brown MP	<i>Minister of Agriculture, Fisheries and Food Until 7 June 2001</i>
Rt. Hon. Margaret Beckett MP	<i>Secretary of State for the Department for the Environment, Food and Rural Affairs From 8 June 2001</i>
Elliot Morley MP	<i>Parliamentary Secretary (Commons) for the Department for the Environment, Food and Rural Affairs</i>

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

Jim Dewar	<i>Chief Executive</i>
Peter Freer-Smith	<i>Chief Research Officer (Acting Chief Executive from 2 June 2002)</i>
Ken Charles	<i>Personnel and Administration Officer</i>
Tony Cornwell	<i>Head of Finance and Planning</i>

The Chief Executive is appointed following public advertising of the post.

9. Auditors

These accounts are prepared in accordance with a direction given by the Treasury in pursuance of Section 5(1) of the Exchequer and Audit Departments Act 1921. They are audited by the Comptroller and Auditor General.

P. Freer-Smith

Acting Chief Executive and Agency Accounting Officer

14 November 2002

STATEMENT OF FORESTRY COMMISSION'S AND CHIEF EXECUTIVE'S RESPONSIBILITIES

Under Section 5(2) of the Government Resources and Accounts Act 2000 the Treasury has directed the Forestry Commission to prepare a statement of accounts for Forest Research for each financial year in the form and on the basis set out in the accounts direction. The accounts are prepared on an accruals basis and must give a true and fair view of the Forest Research state of affairs at the year end and of its income and expenditure and cash flows for the financial year.

In preparing the accounts the Forestry Commission is required to:

- observe the accounts direction, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards have been followed, and disclose and explain any material departures in the financial statements;
- prepare the financial statements on the going concern basis, unless it is inappropriate to assume that Forest Research will continue in operation.

The Director General of the Forestry Commission, as departmental Accounting Officer, has designated the Chief Executive of Forest Research as the Accounting Officer for the Agency. His relevant responsibilities as Accounting Officer, including his responsibility for the propriety and regularity of the public finances and for the keeping of proper records, are set out in the Accounting Officers' Memorandum, issued by the Treasury and published in *Government accounting* (The Stationery Office).

STATEMENT ON INTERNAL CONTROL

As Acting Accounting Officer I have responsibility for maintaining a sound system of internal control that supports the achievement of Agency policies, aims and objectives, set by the Agency's Ministers, while safeguarding the public funds and assets for which I am personally responsible, in accordance with the responsibilities assigned to me. Control of certain activities is carried out by the Forestry Commission on the Agency's behalf, and in respect of those areas I place reliance on the Forestry Commission's Statement of Internal Control.

The system of internal control is designed to manage rather than eliminate the risk of failure to achieve policies, aims and objectives: it can therefore only provide reasonable and not absolute assurance of effectiveness.

The system of internal control is based on an ongoing process designed to identify the principal risks to the achievement of Agency policies, aims and objectives, to evaluate the nature and extent of those risks and to manage them efficiently, effectively and economically. By March 2002 I had put in place the procedures necessary to implement Treasury guidance and these will operate fully in the coming year.

We have agreed and promulgated a risk management policy. Working with responsible managers, we have developed a risk register for the principal risks to the achievement of Agency policy, aims and objectives. These identify the risks, the adequacy of the controls and any corrective action required. This has been endorsed by the Agency's Management Board. A series of Financial Awareness Seminars has been introduced to be attended by representatives of all grades of staff throughout the organisation during the coming year.

The Management Board meets monthly to consider the plans and strategic direction of the Agency. The Management Board receives regular reports from managers on the steps they are taking to manage risks in their areas of responsibility including progress on key projects. The risk management policy ensures that the Board includes risk management within its remit and formally tasks it with its review. There will be a full risk and control assessment before reporting on the year ending 31 March 2003.

The Agency has an Audit Committee, which reviews matters concerning risk and internal control within the Agency. The effectiveness of risk management and control across the Forestry Commission and its Agencies is also monitored by the Forestry Commission Audit Committee. The work of the internal and external auditors is currently reported annually to the full Board of Forestry Commissioners; in future this will be expanded to cover the full business of the Forestry Commission Audit Committee.

In addition to the actions mentioned above, in the coming year we will:

- implement the financial awareness seminars which introduce the concept of risk management;
- maintain the Agency risk register and review the planned actions;
- submit a report on the Agency's internal control activities to the Principal Accounting Officer.

The Forestry Commission has an Internal Audit Unit, which operates to standards defined in the Government Internal Audit manual. They submit regular reports, which include the Head of Internal Audit's independent opinion on the adequacy and effectiveness of the Agency's system of internal control together with recommendations for improvement.

My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within the Agency who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letters and other reports.

P. Freer-Smith

Acting Chief Executive and Agency Accounting Officer

14 November 2002

THE CERTIFICATE OF THE COMPTROLLER AND AUDITOR GENERAL TO THE HOUSE OF COMMONS

I certify that I have audited the financial statements on pages 113 to 123 under the Government Resources and Accounts Act 2000. These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages 116 to 117.

Respective responsibilities of the Agency, the Chief Executive and Auditor

As described on page 109, the Agency and Chief Executive are responsible for the preparation of the financial statements in accordance with the Government Resources and Accounts Act 2000 and Treasury directions made thereunder and for ensuring the regularity of financial transactions. The Agency and Chief Executive are also responsible for the preparation of the other contents of the Annual Report. My responsibilities as independent auditor are established by statute and guided by the Auditing Practices Board and the auditing profession's ethical guidance.

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

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

I review whether the statement on page 110 reflects the Agency's compliance with Treasury's guidance 'Corporate governance: statement on the system of internal control'. I report if it does not meet the requirements specified by the Treasury or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements.

Basis of audit opinion

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

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement whether caused by error or by fraud or other irregularity and that in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities that govern them. In forming my opinion I have also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In my opinion:

- the financial statements give a true and fair view of the state of affairs of Forest Research at 31 March 2002 and of the surplus, total recognised gains and losses and cash flows for the year then ended and have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and directions made thereunder by Treasury; and
- in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

I have no observations to make on these financial statements.

John Bourn

Comptroller and Auditor General

19 December 2002

National Audit Office

197 Buckingham Palace Road

Victoria

London SW1W 9SP

INCOME AND EXPENDITURE ACCOUNT for the year ended 31 March 2002

	Notes	2002 £000	2001 £000
Income			
Income from research, development and survey services			
Forestry Commission customers	2	11,153	11,254
Non-Forestry Commission customers		1,258	1,116
Total income		<u>12,411</u>	<u>12,370</u>
Expenditure			
Staff costs	3	7,317	7,177
Other management costs	4 & 5	1,885	1,826
Materials and services	5	2,640	2,787
Total expenditure		<u>11,842</u>	<u>11,790</u>
Net operating surplus/(deficit)		569	580
Notional cost of capital	7	<u>(556)</u>	<u>(519)</u>
Net surplus/(deficit) for the year		13	61
Transferred to General Fund		<u>13</u>	<u>61</u>

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES for the year ended 31 March 2002

	2002 £000	2001 £000
Net surplus/(deficit) for the year	13	61
Revaluation surplus/(loss) for the year	1,280	19
Total recognised gains/(losses)	<u>1,293</u>	<u>80</u>

The notes on pages 116 to 123 form part of these accounts.

BALANCE SHEET for the year ended 31 March 2002

		31 March	31 March
		2002	2001
	Notes	£000	£000
Fixed assets			
Tangible fixed assets	6	9,768	8,393
Current assets			
Stocks	8	259	31
Debtors	9	471	604
Cash at banks and in hand		1	1
		731	636
Current liabilities			
Creditors – amounts falling due within one year	10	742	261
Net current assets		(11)	375
Total assets less current liabilities		9,757	8,768
Taxpayers Equity			
General Fund	11	5,869	6,160
Revaluation Reserve	12	3,888	2,608
Total Taxpayers Equity		9,757	8,768

P. Freer-Smith

Acting Chief Executive and Agency Accounting Officer
14 November 2002

CASH FLOW STATEMENT for the year ended 31 March 2002

	Notes	2002	2001
		£000	£000
Reconciliation of net surplus to net cash flow from operating activities			
Net surplus for the year		13	61
Notional cost of capital	7	556	519
Depreciation	4 & 6	405	396
Decrease/(-)Increase in stocks		(228)	79
Decrease/(-)Increase in debtors		133	(115)
Increase/(-)Decrease in creditors		481	9
Net cash inflow from operating activities		1,360	949
Capital expenditure			
Payments to acquire tangible fixed assets		(513)	(587)
Non-cash inter-country transfers		9	
Total net cash inflow		856	362
Financing			
Cash surplus transferred to Forestry Commission		856	362
Reconciliation of net cash flow to movement in net funds			
Net funds at 1 April 2001		1	1
Net funds at 31 March 2002		1	1

The notes on pages 116 to 123 form part of these accounts.

NOTES TO THE ACCOUNTS

NOTE 1. Accounting Policies

1.1 Form of Accounts

In accordance with Section 5(2) of the Government Resources and Accounts Act 2000, the accounts are drawn up in a format agreed and approved by Treasury. They are prepared under the historical cost convention modified by the inclusion of the valuation of assets. Without limiting the information given, the accounts meet the requirements of the Companies Acts and of the Financial Reporting Standards where relevant.

1.2 Accounting for Fixed Assets

Where the Agency is the principal beneficial user of assets of the Forestry Commission estate they are treated as a fixed asset of the Agency although legal ownership is vested in the Forestry Ministers.

The normal threshold for the capitalisation of assets is £1,500, but all IT equipment costing £250 or more is capitalised as a pooled asset, the amount involved being material.

1.3 Valuation of Assets

Land and buildings were subject to a triennial evaluation as at 31 March 2002 by professionally qualified staff employed by the Forestry Commission. Research and office equipment is revalued every three years using prevailing current prices for replacement items. Between revaluations, tangible fixed asset values are updated annually using a general price index.

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

1.4 Depreciation

Depreciation is provided on all tangible fixed assets – except land – at rates calculated to write off the valuation, less estimated residual value, of each asset evenly over its expected useful life.

Freehold buildings – 20 to 80 years

Research and office equipment – 4 to 20 years

1.5 Stocks

Consumable materials and supplies are valued at current replacement cost.

Work in progress on long-term projects is valued at the cost of staff time and other direct costs plus attributable overheads based on the normal level of activity.

1.6 Research and Development

As a provider of research services, all income and expenditure on research and development is written off to the Income and Expenditure Account.

1.7 Corporation Tax

Forest Research is not subject to corporation tax.

1.8 Provision for Bad and Doubtful Debts

Specific provisions for bad and doubtful debts are set aside on the basis of a review of individual debts at the end of the year.

1.9 Foreign Currencies

Transactions in foreign currencies are recorded at the rate ruling at the time of the transaction. Exchange differences are taken to the Income and Expenditure Account.

NOTE 2. Income from Forestry Commission and Forest Enterprise

The Agency undertakes a significant proportion of the Forestry Commission's overall annual research programme in the form of specifically commissioned projects to deliver agreed outputs. A separate annual charge is agreed for each project based on full cost recovery. These charges amounted to £9.5 million. Costs established in one year are used to determine project charges for future years. The Agency also provides research and survey services for Forest Enterprise and other parts of the Forestry Commission on a full cost recovery basis.

Total income from Forestry Commission customers consisted of:

	2002	2001
	£000	£000
Reconciliation of net surplus to net cash flow from operating activities		
Research, development and other services to:		
Forestry Commission	10,096	10,145
Forest Enterprise	1,057	1,109
	11,153	11,254

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

	2002	2001
	£000	£000
Wages and Salaries	5,999	5,820
Social Security Costs	424	431
Employer's Superannuation Costs	894	926
	7,317	7,177

Until 30 November 2001 the Agency's staff were covered by the Forestry Commission Pension Scheme which was a defined benefit pension scheme. Employer's superannuation contributions, calculated as percentage of pensionable pay, were paid to the Forestry Commission Pension Scheme and included in the Income and Expenditure Account. The employer's contribution rates were set at 15% to 22% according to grade, as determined by the Government Actuary. Actual payments were met by the Forestry Commission and reflected in its annual accounts.

From 1 December 2001 the Forestry Commission Pension Scheme was subsumed into the Principal Civil Service Pension Scheme (PCSPS) which is also a defined benefit pension scheme. Employer's superannuation contributions, calculated as percentages of pensionable pay, are paid to the PCSPS and included in the Income and Expenditure Account. The employer's contribution rates are set at 12% to 18.5%, according to salary band. Actual payments are met by the PCSPS.

3.2 The total remuneration, excluding pension contributions, of the Chief Executive, the highest paid member of the Management Board, was £63,328 (2000/01: £60,195). The Chief Executive is an ordinary member of the Pension Scheme.

3.3 The range of salaries of Management Board members, excluding the Chief Executive, is shown below. Management Board members are senior staff and are ordinary members of the Pension Scheme.

	2002	2001
Management Board Members	Number	Number
£35,000–£39,999	2	2
£45,000–£49,999		1
£50,000–£54,999	1	

Pension benefits are provided through the Principal Civil Service Pension Scheme. The scheme provides benefits on a 'final salary' basis at a normal retirement age of 60. Benefits accrue at the rate of 1/80th of pensionable salary for each year of service. In addition a lump sum equivalent to 3 years' pension is payable on retirement. Members pay contributions of 1.5% of pensionable earnings for the provision of widows and childrens benefits. Pensions increase in line with the Retail Price Index. On death, pensions are payable to the surviving spouse at a rate of half the member's pension. On death in service, the scheme pays a lump sum benefit of twice pensionable pay and also provides a service enhancement on computing the spouse's pension. The enhancement depends on length of service and cannot exceed 10 years. Medical retirement is possible in the event of serious ill-health. In this case, pensions are brought into payment immediately without actuarial reduction and with service enhanced as for widow(er) pensions.

Disclosures relating to members of the Management Board have been restricted in accordance with the Data Protection Act 1998.

3.4 The average number of employees (full-time equivalents) during the year was 280 (2001:277).

3.5 Benefits in kind are provided under the following schemes:

- (i) Advances of Salary for House Purchase
- (ii) Advances of Salary for Purchase of Season Tickets and Bicycles
- (iii) Car Provision for Employees Scheme.

Each scheme is subject to conditions and financial limits.

The Advances of Salary for House Purchase scheme had 10 loans with an outstanding balance of £2,500 or more to individual members of staff at 31 March 2002. The total value of these loans was £79,251.46

NOTE 4. Other Management Costs

Other management costs are stated after charging:

	2002	2001
	£000	£000
	Number	Number
Exchange Rate Losses on EC Contracts	–	2
Auditors' Remuneration	22	19
Depreciation of Fixed Assets	405	396
Travel and Subsistence	464	399
Staff Transfer Expenses	59	60
Training	120	114
Building Maintenance	382	367
Utilities	230	227
Computer Supplies	101	109

NOTE 5. Charges from the Forestry Commission

Included within Other Management Costs and Materials and Services are charges from the Forestry Commission and Forest Enterprise amounting in total to £1,118,597 (2001: £1,210,743).

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

NOTE 6. Fixed Assets

	Freehold Land and Buildings £000	Machinery and Equipment £000	Total £000
Valuation:			
At 1 April 2001	7,443	4,532	11,975
Additions	12	501	513
Disposals and transfers	(16)		(16)
Revaluation adjustment	1,211		1,211
At 31 March 2002	8,650	5,033	13,683
Depreciation:			
At 1 April 2001	269	3,313	3,582
Provided in year	134	271	405
Disposals and transfers	(3)		(3)
Revaluation adjustment	(69)		(69)
At 31 March 2002	331	3,584	3,915
Net book value:			
At 31 March 2002	8,319	1,449	9,768
At 31 March 2001	7,174	1,219	8,393

Fixed assets were revalued as at 31 March 2002 in accordance with accounting policies. The valuation includes the two principal research stations: Alice Holt Lodge near Farnham in Surrey and the Northern Research Station, Roslin near Edinburgh, with net book values of £5.5 million and £2.2 million respectively at 31 March 2002.

NOTE 7. Cost of Capital

Notional cost of capital based on 6% of average total assets less current liabilities employed in 2001/02 amounted to £ 555,751.

NOTE 8. Stocks

	2002	2001
	£000	£000
Research Work in Progress	259	31
	259	31

NOTE 9. Debtors

	2002	2001
	£000	£000
Amounts falling due within one year		
Trade debtors	368	446
Other debtors	30	31
Prepayments	2	54
	400	531
Amounts falling due after one year – house purchase loans	71	73
	471	604

NOTE 10. Creditors: amounts falling due within one year

	2002	2001
	£000	£000
Payments received on account	280	48
Trade creditors	454	211
Other creditors including taxation and social security costs	8	2
	742	261

NOTE 11. General Fund

	2002	2001
	£000	£000
Balance brought forward	6,160	5,920
Prior year adjustment	<u> </u>	<u>21</u>
Balance as adjusted	6,160	5,941
Movement in year		
Net surplus for year	13	61
Transfer of fixed assets from/(-) to other Forestry Bodies	(13)	1
Cash surplus transferred to Forestry Fund	(856)	(362)
Non-cash inter-country transfers	9	
Notional cost of capital	556	519
Balance carried forward	5,869	6,160

NOTE 12. Revaluation Reserve

	2002	2001
	£000	£000
Balance brought forward	2,608	2,589
Revaluation surplus for the year ended 31 March 2002		
Land and Buildings	1,280	101
Machinery and Equipment		(82)
Balance carried forward	3,888	2,608

NOTE 13. Contingent Liabilities

There were no contingent liabilities at 31 March 2002 for damages caused to other persons' property or for compensation for personal injury to employees.

NOTE 14. Related Party Transactions

During the year, Forest Research has had a significant number of material transactions with the Forestry Commission and Forest Enterprise Agency who are regarded as related parties. In addition, Forest Research has had various material transactions with other Government Departments and other central Government bodies. Most of these transactions have been with the Department of Trade and Industry and the Department for Environment, Food and Rural Affairs.

NOTE 15. Financial Performance Measures

The target to recover full resource costs, including capital, from internal and external customers was achieved. The Agency achieved an operating surplus of £568,471 which, after allowing for the cost of capital (£555,750), represented a cost recovery of 100% (2001: 101%).

ACCOUNTS DIRECTION GIVEN BY THE TREASURY IN ACCORDANCE WITH SECTION 7(2) OF THE GOVERNMENT RESOURCES AND ACCOUNTS ACT 2000

1. This direction applies to The Forestry Commission Research Agency.
2. The Forestry Commission Research Agency shall prepare accounts for the year ended 31 March 2002 in compliance with the accounting principles and disclosure requirements of the edition of the *Resource accounting manual* issued by H M Treasury which is in force for 2001–02.
3. The Accounts shall be prepared so as to give a true and fair view of the income and expenditure, total recognised gains and losses and cash flows of the Agency for the financial year and of the state of affairs as at 31 March 2002.
4. Compliance with the requirements of the *Resource accounting manual* will, in all but exceptional circumstances, be necessary for the accounts to give a true and fair view. If, in these exceptional circumstances, compliance with the requirements of the *Resource accounting manual* is inconsistent with the requirement to give a true and fair view, the requirements of the *Resource accounting manual* should be departed from only to the extent necessary to give a true and fair view. In such cases, informed and unbiased judgement should be used to devise an appropriate alternative treatment which should be consistent both with the economic characteristics of the circumstances concerned and the spirit of the *Resource accounting manual*. Any material departure from the *Resource accounting manual* should be discussed in the first instance with the Treasury.
5. This direction replaces any previous direction issued to the Agency.

David Loweth

Head of the Central Accountancy Team, Her Majesty's Treasury

Dated 26 February 2002