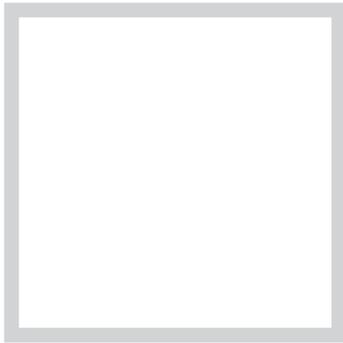
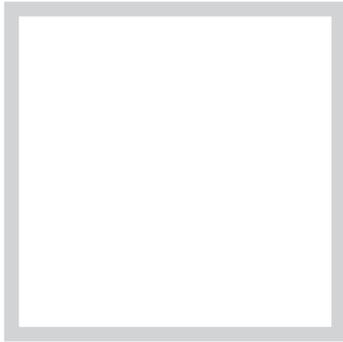
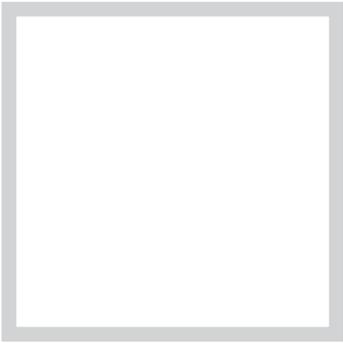


Great Britain & England

Annual Report & Accounts

01.02



Aims and Objectives

The Forestry Commission's aim is the sustainable management of our existing woods and forests, and a steady expansion of tree cover to increase the many, diverse benefits that forests provide to meet the needs of present and future generations. Through its powers and duties set out in the various Acts, the objective of the Forestry Commission for its Great Britain activities, is:

- 🌲 on behalf of all 3 administrations, to take the lead in development and promotion of sustainable forest management and to support its achievement nationally.

In England, it aims to implement the programmes of the England Forestry Strategy whose objectives are:

- 🌲 to increase the contribution of forests and woodlands to local economies and rural development (*Forestry for Rural Development Programme*);
- 🌲 to expand the role of woodlands in supporting the economic regeneration of former industrial land and disadvantaged communities (*Forestry for Economic Regeneration Programme*);
- 🌲 to promote public access to woods and forests and develop diverse recreational opportunities (*Forestry for Access, Recreation and Tourism Programme*); and
- 🌲 to conserve and improve the biodiversity, landscape and cultural heritage of our forests and woodlands (*Forestry for the Environment and Conservation Programme*).

The Forestry Commission also aims to be a place which values:

Teamwork – Working as teams with colleagues and others to ensure that trees, woods and forests meet the needs of people in each part of Britain.

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.

Forestry Commission

Annual Report & Accounts 2001-02 for Great Britain and England together with
the Comptroller and Auditor General's Report on the Accounts.

Presented to Parliament in pursuance of Section 45 of the Forestry Act 1967
and Section 5 of the Exchequer and Audit Departments Act 1921.

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The Forestry Commission also prepares formal Reports for the Scottish Parliament and the National Assembly for Wales. This Report deals with Forestry Commission functions funded by Westminster – our activities in England, and those functions, such as plant health, international policy, research and pensions, which are funded on a Great Britain basis.

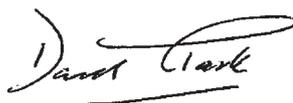
Foreword by the Rt Hon Lord Clark of Windermere, Chairman

I am delighted to introduce my first report as Chairman of the Forestry Commission. Having grown up in rural Cumbria, where my father was a gardener, I have always had a keen personal interest in the countryside and in the Forestry Commission. I have had strong connections with forestry over the years from working in private forestry straight after school, in my responsibilities in Parliament and more recently as Chairman of the All-party Parliamentary Forestry Group.

It was therefore a great honour to be appointed Chairman in December 2001. I look forward to building on the achievements of my predecessor Sir Peter Hutchison, who took the Commission through an important period in its history, including the creation of two agencies and the adaptation to devolution. That period saw a step change in the broadening of forestry policy to deliver environmental and social as well as economic benefits.

My expectations have been met in full. I have been struck by the vigour with which the Commission has responded to the agendas of the 21st century, whilst building on its many traditional strengths. The benefits are being enjoyed by people throughout Britain – primarily, of course, in rural areas, but also by those in our cities who now have readier access to green spaces and enjoy an improved environment for every day life and work. In that respect, I see our acquisition of over 1,000 hectares of land in the Mersey, Red Rose and Thames Chase Community Forest areas as a particularly important development.

I am particularly pleased that Ministers share my overall perception. They made this very clear in the outcome of the Forestry Devolution Review, which looked at the administrative arrangements for delivering sustainable forestry policies, including options for further devolution. The review has now concluded that, whilst the arrangements need updating so as to improve integration with other rural policies, the Commission should remain as a Great Britain body, not least so as to provide opportunities for a collaborative approach on issues which are common throughout Great Britain. This is, I believe, a vote of confidence in the work of Commission staff up and down the country. The Commissioners have welcomed the specific changes recommended in the review. I pay tribute to my colleagues on the Board of Commissioners and look forward to working with them to make sure that the new arrangements work well in practice so that we can continue to provide a first rate service to the people of England, Scotland and Wales.



Lord Clark
Chairman

Introduction by David Bills, CBE Director General

The Forestry Commission delivers an ever-increasing variety of benefits to society. That makes it hard to encapsulate briefly the highlights of any given year. 2001-02 has brought its usual share of success and challenge. Perhaps it has been, above all, about preparations for the future.

I was particularly thrilled that we were awarded the World Wildlife Fund for Nature's "Gift to the Earth" for being the first state forest anywhere in the world to achieve 100% certification to a standard recognised by the Forest Stewardship Council. This is a prestigious award which recognises the ground-breaking work which we have done in both developing the UK Woodland Assurance Scheme and ensuring that all public forests are managed by our Forest Enterprise agency to the highest standards of sustainability. It is a stamp of approval for our management activities throughout Britain.

Forestry's increasingly positive track record on sustainability was illustrated by the prominent part which the sector played in the run-up to the World Summit on Sustainable Development in Johannesburg. Working under the name of the UK Forestry Partnership for Action, the whole range of stakeholders have taken very seriously indeed the opportunity presented by this Summit and the challenge thrown down by the Prime Minister when he included forestry amongst the five sectors on which the UK would focus its attention. We look forward to seeing the fruits of this work in the year ahead as we focus on a domestic and international agenda of promoting sustainability, encouraging certification, restoring forests and tackling illegal logging.

Challenges have not been hard to find. Timber prices continue at unprecedented levels, causing serious difficulty for people in every part of the production chain. There is little sign of an early turn-around. The memory of foot and mouth is still raw. Whilst huge efforts have been made to reinvigorate rural communities – in which FC staff and woodlands have played a significant part – the impact of the outbreak is still keenly felt in many parts of Britain.

In such circumstances, I believe it is important not only to tackle today's problems but also to look to the future. The work we continue to do on the wood for good campaign, stressing the sustainability credentials of wood as a product, is beginning to pay dividends with the share of timber in construction and the overall use of timber improving significantly over the past two years. Looking to future markets, I am sure the considerable investment this year, in financial and policy terms, in developing a market for wood as a fuel will begin to pay dividends too.

Increasing our understanding of forestry and its place in the world is another important investment for the future. This year saw the publication by Forest Research of a very important document on climate change. We also made good progress on producing, for the first time, a comprehensive set of indicators of sustainable forestry for the UK as a whole.

We are keen to ensure that we have in place the best systems and technology to allow us to provide high quality services into the 21st Century. The three quarters of a million pounds we secured from the Invest to Save Fund will allow us to undertake a thorough review of our grants and licence systems so that we can better serve woodland owners and others throughout Britain.

Introduction by David Bills, CBE Director General (continued)

But the future of a sector lies more than anything in the expertise of its people. I have been particularly pleased with the progress made this year in equipping people, both within the Forestry Commission and elsewhere, to meet tomorrow's challenges. The new Trees and Timber Industry Group within Lantra (the skills council for the land-based sector) will help to drive up skills throughout this sector. Our efforts alongside the Health & Safety Executive to bring down accident rates are beginning to bear fruit. Within the Commission, we have continued the process begun by the unification of our workforce, with energetic follow-up to the survey of all staff, agreement on a set of values by which we shall all be guided and an imaginative and effective leadership development programme. These developments – and the quality of both my colleagues in the Commission and those we deal with day by day – are the primary reasons why I think we can look to the future with confidence.



David Bills
Director General

Sustainable Forest Management

(i) International

The Forestry Commission represents the United Kingdom (UK) Government and the devolved administrations in a range of international forestry initiatives and events. Our international involvement has three aims:

-  to represent and promote UK interests in international discussions;
-  to demonstrate the high standard of management in the UK forest resource; and
-  to contribute to a fuller understanding of sustainable forest management.

This was an important year for forests internationally, with both the first and second sessions of the newly established United Nations Forum on Forests and preparation for the consideration of forests as a key issue by the 6th Conference of the Parties of the Convention on Biological Diversity.

United Nations Forum on Forests (UNFF)

The Forestry Commission led the UK delegation to the first session of the United Nations Forum on Forests, which took place in June 2001 at the headquarters of the United Nations in New York. Delegates discussed and adopted decisions on the forum's multi-year programme of work, a plan for putting into action the implementation of the proposals agreed in the Intergovernmental Panel and Forum on Forests, and on initiating the forum's work with the Collaborative Partnership on Forests. The programme of work provides a framework for assessing progress towards implementation of forestry commitments, for highlighting best practice and for identifying challenges to achieve sustainable forest management.

Elliot Morley MP, Forestry Minister, led the UK delegation to the forum's second session in March 2002, which was also held at the UN HQ in New York, in March 2002. This session focused on the environmental aspects of sustainable forest management. Delegates discussed and made decisions on a number of issues, including forest

degradation, regeneration and planted forests. Mr Morley made one of the opening statements during the Ministerial segment, highlighting that progress in forest policy development had not been matched by progress in policy implementation. He also noted that the UK has been at the forefront of international developments in forestry, for example: by developing the government's UK Forestry Standard; by developing and implementing a UK standard for forest certification; by working with industry and non-governmental organisations on sustainable forestry issues; and by leading efforts to tackle illegal logging. Forestry Ministers agreed a Declaration that focused on national action to implement the international commitments on sustainable forest management, and that highlighted the link between the economic, social and environmental dimensions of sustainable forest management.

The Declaration also recognised the opportunity presented by the World Summit on Sustainable Development to strengthen political commitment, to promote international co-operation and to implement sustainable forest management globally. In addition, it called for projects that will achieve sustainable development and promote partnerships between governments and stakeholders.

Commonwealth Forestry Conference

More than 400 delegates from across the Commonwealth took part in the 16th Commonwealth Forestry Conference, in Freemantle, Western Australia in April 2001. Forestry Commission staff played an active role. The theme of the conference – Forests in a changing landscape – encouraged people from a variety of perspectives to share their experiences, looking at a number of aspects of the term "landscape", including physical, political, social and institutional. Delegates noted that, whatever the challenges that need to be addressed, sustainable forest management plays a critical role in contributing to the economy and quality of life of nations. The 17th Commonwealth Forestry Conference will be held in Sri Lanka in 2005.

Sustainable Forest Management (continued)

World Summit on Sustainable Development

The World Summit on Sustainable Development will take place in Johannesburg, South Africa, in September 2002, to review progress on the tenth anniversary of the Earth Summit. Sustainable forest management is strongly linked to many of the issues on the agenda. The Prime Minister, the first head of government to declare his attention to attend the Summit, named forestry as one of the key sectors for which he invited business leaders and non-governmental organisations (NGOs) to develop strategies to promote sustainable development. The Forestry Commission is leading the government's contribution on forestry, and working in partnership with forest business leaders and NGOs to develop a strategy for sustainability in forestry.

United Nations Convention on Biological Diversity

In April 2001, the Forestry Commission, with support from the Department for International Development and the Department for Environment, Food and Rural Affairs, hosted the second meeting of the Ad hoc Technical Expert Group on Forests, which was established by the fifth Conference of the Parties to the Convention on Biological Diversity. We took an active part in the meeting, which developed a wide-ranging programme of work that was later adopted by the scientific and technical body of the convention. This led to recommendations to focus current work on forest biological diversity more towards action at national and international levels. We will be active in continuing this movement at the sixth Conference of the Parties, to be held in The Hague from 7 to 19 April 2002, where forest biological diversity will be a priority issue.

United Nations Economic Commission for Europe (ECE)

The United Nations ECE Timber Committee held its 59th Session in Geneva, October 2001. It reviewed the markets for forest products in 2001 and prospects for 2002 and considered strengthening intersectoral co-operation in trade, timber, environment and energy as its special topic. The Timber Committee

approved proposals prioritising work, the mandates for teams of specialists and allocation of resources based on the strategic review of their work programme, completed earlier in the year.

Ministerial Conference on the Protection of Forests in Europe (MCPFE)

The Forestry Commission represented the UK at an expert meeting in October, held to prepare for the fourth Ministerial Conference on the Protection of Forests in Europe, which will be held in Vienna from 28 to 30 April 2003. The meeting, held to identify key issues for the conference, suggested a draft Classification of Protected and Protective Forest Areas in Europe, National Forest Programmes and the viability of sustainable forest management. The discussions will continue at expert meetings in June and October 2002.

European Union (EU)

EU funding for forestry through the Rural Development Fund continues to increase, though it is expected to level off unless there is reform of the Common Agricultural Policy. In preparation for this, the Forestry Commission organised a meeting of forestry experts from EU countries and members of the European Commission to explore how forestry can deliver sustainable development in rural areas. Other countries will continue this work, to create an attitude in support of forestry across the EU.

In response to increasingly poor support for forestry from the European Commission, we are pushing, with partners in appropriate countries, for more consultation and co-ordination on EU forestry issues. We have put new staff in place, and strengthened the Standing Forestry Committee, the main link between countries and the commission.

We began to develop revised legislation for monitoring tree health, as well as forestry statistics and fires, which will be agreed next year. A new regulation on strategic environmental assessment was adopted with the intention of incorporating environmental impact assessment into the early

stages of government policy development. We published draft legislation on environmental liability, which will deal with damage to important natural habitats.

(ii) UK Activity

UK Forestry Standard

The UK Forestry Standard has been adopted by England, Scotland and Wales as a guiding instrument in their policies and programmes. Since it was published in 1998, the Standard has proved remarkably durable as a key reference for guidance and regulation. It now needs some updating. The process of monitoring UK forestry against the Standard has taken a major step forward with the completion of the current cycle of National Inventory of Woodland and Trees, which started in Scotland in 1995. The inventory is a benchmark of the extent and composition of woodlands in Great Britain at the end of the 20th century. The Forestry Commission is now publishing the reports, along with a digital map showing all woodlands of two hectares or more.

Our commitment to monitoring the implementation of the UK Forestry Standard is to report on studies that take a critical look at what are likely to be the most sensitive aspects. During this year, the Forestry Commissioners considered a report on a significant study of the standards of landscape being reached in upland felling and replanting; we published the report and our response on our website. In common with other surveys that we are initiating (see Indicators of Sustainable Forestry, below), much of its value lies in the benchmark it creates for measuring future performance. Foot and mouth disease severely disrupted field work on surveys of soil disturbance on harvesting sites and of the success of replanting operations, and delayed the publication of these reports and our responses to them.

Indicators of Sustainable Forestry

The Forestry Commission, in partnership with the Northern Ireland Forest Service, plans to publish a set of UK Indicators of Sustainable Forestry in the summer of 2002. This will contain around 30-40 indicators, describing woodlands, the condition of the woodland environment, woodland biodiversity, timber and other forest products, and social aspects of forestry in the UK. These national-level indicators, which are linked to the UK Forestry Standard, will give information about the current state – and trends over time – of woodlands and their management, allowing us to monitor forestry's contribution to sustainable development. We asked stakeholders for their views between March and June 2001, and this exercise, which included workshops in Bromsgrove and Antrim, produced 38 indicators, which were issued for expert and public consultation between February and May 2002.

Forestry Commission staff also represented the UK in a series of international workshops, held from March 2001 to May 2002, to review and revise the pan-European indicators of sustainable forest management, in preparation for the 2003 Ministerial Conference on the Protection of Forests in Europe.

Certification

Independent certification of woodland entered a new stage of development last year. We assessed the benefits of certification and made initial efforts to increase its use. The UK government also showed increased interest in the issue. The partners in the UK Woodland Assurance Standard (UKWAS) commissioned an analysis of the contribution made by certification to sustainable management and government rural policy, and began work on a simplified standard and an audit procedure for small woods. Initial research showed that certification has led to measurable improvements in forest management.

Sustainable Forest Management (continued)

Certification was a key part of the forestry programme within the government's preparations for the World Summit, in particular in the commitment to purchase wood and timber products only from legally logged and sustainably managed sources. Demand for certified products will increase, and there will be more opportunities for UK industry to capture market share from competitors offering timber that is not certified.

During the year Forest Enterprise (FE) continued to manage one of the largest areas of independently certified state-owned forest in the world. In the autumn, FE successfully completed its second surveillance exercise to ensure our continued compliance with the UK Woodland Assurance Standard. In November, FE joined the World Wildlife Fund's (WWF) 95+ Group and the Global Forest and Trade Network, which is made up of businesses, companies and forest owners around the world that are committed to working with the WWF to promote good forest management, forest certification and increased trade in credibly-certified products.

In recognition of our work in forest certification and sustainable forest management, WWF awarded the prestigious Gift to the Earth to the Forestry Commission and Forest Enterprise. This is the WWF's highest award for a globally significant conservation achievement. The award recognises our work in developing the UK Woodland Assurance Standard and in winning certification for our entire national forests.

The citation reads: "Through the actions recognised in this gift, Forest Enterprise have made the UK one of the leading countries worldwide, next to Sweden, Poland and the USA in terms of percentage of total forest certified. This is the first time a state forest anywhere in the world has achieved 100% certification to a standard recognised by the Forest Stewardship Council (FSC). In achieving certification of the public forest estate, Forest Enterprise recognise the UK market demand for the FSC logo.

With the certification of the entire forest holding managed by Forest Enterprise to UKWAS and FSC Standards, the UK has made a significant contribution towards implementing sustainable forest management and therefore preventing further forest destruction and biodiversity loss."

This was the first year the Woodland Assurance Standard has been in force, and we are encouraged that all staff involved in buying wood products – often in very small amounts – are aware of the issues of certification and sustainability. However, we will continue to educate staff in the importance of these issues, particularly the need for evidence from sources that are sustainable but do not have certificates.

Education and Skills

The Forestry and Arboriculture Safety and Training Council (FASTCo) was disbanded on 31 March 2002. By the end of the year all sectors of the industry agreed that their training interests should be looked after by an integrated Trees and Timber Industry Group in Lantra, the newly appointed Sector Skills Council for the land-based sector. The Forestry Commission sponsored and staffed the former training council, and during the transitional period we are continuing financial support so that the new industry group gets off to a confident start. Improving the competitiveness of forestry by raising skills levels is a high priority for the industry, and building a competent workforce is a requirement of the UK Forestry Standard.

During the year, the safety aspects of FASTCo's work were transferred to a new Arboriculture and Forestry Advisory Group (AFAG) of the Health and Safety Executive's (HSE) Agriculture Industry Advisory Committee. The new Group got off to a good start by winning the commitment of the industry, and is currently reviewing the safety guidance previously produced by the former training council. The Health and Safety Executive will publish the revised guidance both in print and on its website. The Forestry Commission's safety

officer is Technical Secretary to the Agriculture Industry Advisory Committee.

UK universities are concerned that there are fewer people wanting to study forestry. We are aware that there are fewer jobs for forestry graduates, and indeed fewer jobs in our industry overall, and that there is now an established career path for people without degrees. In addition, thanks to the demands of technology and sustainable development, the industry has been employing graduates from a broader number of disciplines. We have discussed these issues with the universities, and we have asked the Institute of Chartered Foresters to investigate and report on the industry's current need for graduates.

Timber Procurement

We are implementing the government's policy to source timber from sustainably managed forests. This is a natural extension of the initiatives we have taken to promote sustainable forest management, including the development of the forest certification standard for the UK. To make sure that we know full details of the wood which we buy for our own use, we have introduced a new system for collecting data, which our staff use to record each purchase of wood products.

As shown in table 5, the largest category of spending was in round timber such as fencing materials. These low value products will account for most of the total volume. Some of the material will previously have been sold as logs from certified Forest Enterprise forests. About a third of this is recorded by our purchasers as certified, which suggests a further half of the purchase of round timber was either from a known source or we were given evidence of its sustainability. The results in other classes of product are also encouraging.

Biodiversity

The Forestry Commission commissioned the first quantitative assessment of progress towards meeting the targets for the UK Habitat Action Plans for native woodlands, which are an important part of the UK Biodiversity Action Plan. The survey included areas covered by the Woodland Grant Scheme and those managed by Forest Enterprise. The study sampled representative sites in England, Scotland and Wales in areas where native woodland management had been recorded from 1992.

The report, to be published in August 2002, showed good progress towards some targets, notably where activity was stimulated by incentive schemes for upland oakwoods and native pinewoods. However, it showed a need for increased resources to deliver other targets, especially those for upland ashwoods, wet woods and beech and yew woods, where incentives schemes have not been introduced. The report also commented on the quality of native woodland work, which will guide our actions in England, Wales and Scotland.

Deer Management

Forest Enterprise (FE) continues to work closely with the Deer Initiative, the Deer Commission for Scotland, the Association of Deer Management Groups and other organisations to improve deer management and venison marketing. This has been an essential part of our work following the foot and mouth outbreak. In partnership with private sector organisations, FE is currently developing a Venison Quality Assurance Scheme. Venison packaging developed in partnership with our biggest customer is now being used by a number of private sector producers. An external audit of FE should allow the use of the Forestry Stewardship Council logo on venison produced from sustainably managed forests in its care. We are continuing to research the management of deer populations.

Sustainable Forest Management (continued)

Forest Reproductive Material

The marketing of forest reproductive material (seeds, cones, cuttings and plants) of 13 species and one genus (poplar) is covered by two EC Directives and is also controlled in Great Britain under the Forest Reproductive Material Regulations 1977. Under these regulations:

- 🌲 sources of basic material (such as stands of trees and seed orchards) have to meet certain standards and be registered;
- 🌲 seeds and plants have to be labelled; and
- 🌲 a clear audit trail has to be established so that the buyer can be assured that planting stock is correctly identified.

A new EC Directive, which revises the existing directives and extends the controls to more species, comes into force on 1 January 2003. We have consulted widely on its implementation and new regulations are being drafted. Only some of our native species (such as Scots pine) are covered by the directive. However, the Forestry Commission encourages the use of natural regeneration or locally sourced planting stock to restock ancient semi-natural woodland or create a new native woodland. Our publication – Using Local Stock for Planting Native Trees and Shrubs, gives more details.

The Forestry Commission Advisory Panel (FCAP)

The Forestry Commission Advisory Panel, and its sub-committees, continued its work under the terms of reference set out in the annual report for 1999-2000. The members of the Panel are listed in Appendix 3. The main Panel, which met in July and November 2001 and March 2002, advised on the Forestry Commissioners' balancing duty, presenting forestry and forest industries, the World Summit 2002, action on ancient woodland, broadleaf genetics and the forestry devolution review. The Technical, Supply and Demand and Environment sub-committees

advised on a range of matters, including the national inventory of woodlands, remote sensing and carbon sequestration. The Supply and Demand sub-committee continued to publish its quarterly market reports.

(iii) Research

The Forestry Commission continues to invest substantially in research. In 2001-02 we spent £10.5 million, of which 90 per cent was devoted to work carried out by our agency, Forest Research. A catalogue of the research commissioned by the Forestry Commission was published on our website in August and an account of the progress that Forest Research has made on its work programmes can be found in its Annual Report.

Research Strategy

In common with other government departments, we reviewed our research strategy to clarify our commitments to achieving technology transfer, advancing innovation, consulting stakeholders and building science into policy. The strategy was published in August on our website. It notes seven areas, identified in partnership with our stakeholders, where we need to improve our understanding. There are:

- 🌲 the social and cultural values associated with woodland;
- 🌲 the role of forestry in rural development;
- 🌲 the impacts of climate change on woodlands;
- 🌲 the impacts of management on the woodland ecosystem;
- 🌲 the relationships between woodland and the physical environment;
- 🌲 the dynamics and behaviour of pests and diseases; and
- 🌲 new markets and opportunities for forest products.

A summary of the key messages in our strategy was published in December in *The Forward Look 2001 – Government Funded Science, Engineering and Technology*, which is available on the Department of Trade and Industry website (<http://www.dti.gov.uk>).

Forestry and Climate Change

The Forestry Commission has long-standing research programmes into the impacts of climate change on forestry, and the potential for forests and forestry products to serve as “carbon sinks”. We published several aspects of this research, with complementary research carried out by others, in a bulletin – *Climate Change: Impacts on UK Forests*, edited by Dr Mark Broadmeadow of Forest Research – which was launched by Elliot Morley MP, the Forestry Minister, in February. The bulletin will encourage further research, and also inform strategic decisions on how forests could be adapted to changing environments. As part of our responsibility for protecting the wider environment, we joined the UK group, led by English Nature, that funds and steers the pioneering Modelling Natural Resource Responses to Climate Change project (MONARCH).

We continued to provide expert advice on the importance of forestry in the debate on climate change to the UK negotiations on the Kyoto protocol, which are led by the Department for Environment, Food and Rural Affairs. We also contributed to the UK’s Third National Communication, part of the United Nations Framework Convention on Climate Change, which was published by the Secretary of State in October.

Technology Transfer

The transfer of knowledge and technology to end-users is the foundation of innovation and vital to reaching government objectives of sustainable development. The Forestry Commission is proud of its record in translating research results into practices and standards for sustainable forest management. However, revising the research strategy (see above) showed that we have much more work to do here. This year, we also reviewed the practices of both Forest Research and our Policy and Practice Division, which share the majority of our research and the publication of research findings. This review showed that it is important to regularly redefine our target audiences and to communicate with everyone with an interest in woodland. It also showed that we should increase our use of electronic publishing, without reducing face-to-face meetings, which continue to be the most effective way of communication.

Review of Forest Research

We set up Forest Research in 1997. The Cabinet Office stipulates that government executive agencies of its kind should be reviewed every five years, and we announced the first review in August 2001. The first stage, which looked at the question of which organisation is best placed to carry out forestry research during the next five years, was given to Ministers in January. It was written after consultation with Forest Research’s customers and other stakeholders.

Sustainable Forest Management (continued)

External Collaboration

In addition to the new, in-house research capability in the social sciences, Forest Research works closely with external centres of excellence. This includes two collaborative projects with Edinburgh College of Art, part of Heriot-Watt University, to investigate:

-  the information needs of visitors; and
-  the importance of local woodlands to communities in central Scotland.

A four-year partnership has been established with the Department of City and Regional Planning, University of Wales, Cardiff. This is investigating how to increase the contribution of forestry to the National Assembly's sustainable development policies.

We are also working with the University of East Anglia, the Health Development Agency and others to understand how forestry can make a stronger contribution to the delivery of the Government's policies for public health and well-being.

The Forestry Commission supports a number of PhD studentships in the social sciences. This includes studentships, funded jointly with Economic and Social Research Council, at the Universities of Edinburgh, Stirling, Brighton, Gloucestershire, Nottingham, East Anglia, Lancaster and University College London.

The Timber Market

Introduction

The European economy did not escape the global slowdown during 2001. Real Gross Domestic Product (GDP) contracted slightly in the final quarter, although the slowdown stopped short of an outright recession. After a period of relative stability, interest rates were lowered from six per cent to four per cent during the year in an attempt to stave off inflationary pressures. Partly as a result, inflation in Britain fell to its lowest level since 1963. The headline rate fell to 0.9 per cent in November, while the underlying rate, which includes mortgage interest costs, fell to 1.8 per cent. These reductions were driven by falling oil prices and interest rate cuts on mortgage payments. Average house prices increased by 12.8 per cent during the year, according to figures calculated by the Nationwide building society.

There has been little good news for the wood supply and sawmilling industries. Timber prices continued to creep lower and the pound sterling continued to rise against the Swedish krona, the traditional benchmark currency for the timber trade. The general state of the economy has restricted demand in construction and limited the need for timber pallets, while foot and mouth disease reduced demand for agricultural fencing. Against this background, which caused some significant closures in the sawmilling industry, it has been good to see key parts of the industry fighting back. The wood. for good. promotional campaign supported by the Forestry Commission, the UK industries and Nordic producers is widely recognised by the forest products trade as a success. It is improving the public image of timber as an interesting and sustainable material. Architects, specifiers and engineers are responding well to increased levels of technical information that are being funded by the campaign.

While foresters have been pleased to see the sustainability credentials of timber recognised, it has been painful for most people in the industry to see the effect of Landfill Tax. The tax is doing its job by very successfully diverting used wood towards being recycled into chipboard. This has further depressed the amount (and thus the price) of small round timber that the chipboard mills need. The consequent reduction in the value of thinnings has increased the area where thinning operations cannot be made to pay. This drop in the amount of thinning, unless reversed, will have serious effects on the quality and value of future crops for sawn timber.

The industry needs to find other markets and products. The Commission is working closely with other departments and agencies to ensure that wood is used to the fullest as a renewable fuel alternative to fossil fuels. Wood fuel has good potential in areas where there are other benefits for the rural economy, especially those associated with developing the supply chain and supporting local heat or power generation. We continue to work in partnership with other departments and industry on a forest product research programme. This is designed to encourage wood processors to invest in value-added products, and to test new ideas and technologies that could increase the range of products made from United Kingdom forests.

Timber Prices

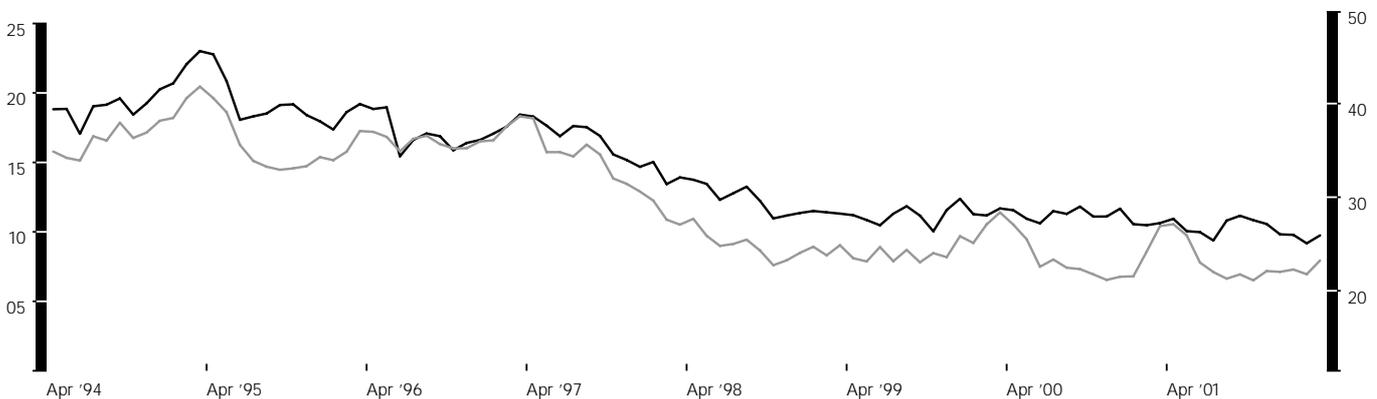
After a period of relative stability, which has lasted since October 1998, the trend in timber prices began to turn downwards during the end of 2001. A continued lack of profitability in the wood based panel sector has continued to drive small round wood and sawmill co-product prices downwards. At the same time, a significant increase in the amount of recycled wood being used in chipboard manufacture has reduced overall demand for chipwood.

The Timber Market (continued)

In England in particular, there has been considerable cause for concern. During the year we have seen the closure of a number of sawmills, with a loss of capacity that has not been replaced. This has reduced competition and resulted in longer haulage distances. Both these factors have helped to cut prices. The relatively small sawmills in England are very prone to competition from both Scotland and Europe.

However, we have established an export market for spruce pulpwood in Finland, and the first shipment to Rauma took place in December. We expect to supply a significant amount of pulpwood to this market this year, mainly from south Scotland and Wales.

Nominal Timber Prices



Timber Production

Demand for Forest Enterprise timber remained strong in the early part of the year although this tailed off towards the end of the year. The lack of demand was particularly apparent in England, chiefly in East Anglia, where mill closures had the biggest impact. During the year, Forest Enterprise produced 5.237 million m³ of timber across Britain. This was 98 per cent of the budgeted amount, well within the target range of ± 5 per cent.

Market Development

One of the most significant developments during the year was the announcement that Shotton Paper is to increase the recycled content of its newsprint to 100 per cent during the next year or two. This will end virgin fibre pulp production at the company's north Wales plant, and will affect the timber market in Wales.

Energy producers have renewed their interest in wood, and the government has increased funding for suitable projects. A biomass power plant on the island of Arran has won planning permission and Border Biofuels has signed a supply agreement with Forest Enterprise. This plant will provide a good local market for lower-value wood products, which are expensive to ship off the island.

Sales Systems

Forest Enterprise, after a review of its electronic and conventional sales procedures, has awarded a contract to develop an electronic timber sales system. The new system will replace traditional open market sales methods, and will lower costs while increasing efficiency, flexibility and quality of service. This project, which should be completed in the coming year, is central to Forest Enterprise's plan to transact all its business electronically.

Customer Satisfaction

During the year we developed and ran two-day timber marketing courses for Forest District staff, as part of our commitment to keeping our staff up to date on domestic and international timber markets. We developed the courses from earlier ones run for Forest District managers. We are developing more courses for all front-line harvesting and marketing staff, as well as a range of courses for senior staff in harvesting and marketing, which will be delivered by outside contractors.

Timber Haulage

During the year, Forest Enterprise worked closely with a number of organisations that are trying to resolve problems associated with moving roundwood timber on fragile rural roads. It is important that we continue to look for solutions to these problems.

Forest Enterprise takes part in local timber transport groups and the Timber Transport Forum. It has also been working on a number of research initiatives across Great Britain in partnership with private sector organisations and local government. Scottish Enterprise has given valuable assistance to Forest Enterprise and the wider industry. Forest Enterprise has put considerable effort into improving safety in timber transport in partnership with the Health and Safety Executive, the Roundwood Haulage Working Party and other organisations.

Foot and Mouth Disease

Although the more obvious public impacts of foot and mouth disease were dealt with early in the year, we continued to be affected in several important areas of operation for most of 2001. Because we worked closely with local communities, customers, contractors and authorities, we were able to continue with 95 per cent of our harvesting operations. Income from recreation, venison sales and our Forest Holidays' activities was well down on previous years. Our Forest Holidays' unit lost more than

£750,000 of income. Occupancy levels recovered quickly once the sites were reopened, and we do not believe that there has been any lasting impact on income.

Restrictions on meat exports threatened our deer management operations, since a significant proportion of British venison is usually exported. The surplus on the home market depressed prices and there was an initial risk that the market could collapse. A number of well-timed initiatives, in partnership with customers and the private sector, helped prevent a collapse.

Restocking

We have a clear focus on our targets for increasing the number of trees in each hectare we restock, and this has continued to help us produce year-on-year improvements in surveys of plant density. Our focus has been sharpened by a series of seminars for staff that stress the need for regularly assessing planting work and controlling the effects of insects and mammals, particularly deer.

Great Britain restocking densities measured at the end of 5 growing seasons for the main groups of conifers (trees per hectare).

Species group	Planting years					
	1992	1993	1994	1995	1996	1997
Corsican pine	1,754	1,928	1,726	1,897	1,948	2,195
Other pines	1,514	1,599	1,436	1,888	2,253	2,527
Douglas fir	1,802	1,710	1,905	1,893	2,188	2,267
Larches	1,674	1,530	1,739	1,895	1,904	2,172
Sitka spruce	2,019	2,079	2,057	2,057	2,178	2,370
Total average GB conifer	–	–	1,905	2,025	2,140	2,342

Plant Health

Import Inspections of Sawn Wood

During the year there were 2.8 million m³ of imported sawn wood subject to quarantine (the same figure as 2000-01) and we carried out 6,700 inspections (slightly down from the 2000-01 figure of 6,900). We reached our Charter Standard target of inspecting on the day of notification, or within one working day, in more than 99 per cent of cases (the same figure as 2000-01).

The fees from inspections were slightly lower than the costs of carrying them out, and we intend to increase our fees, for the first time since 1999, in the coming year.

The Eight-toothed Spruce Bark Beetle (*Ips typographus*)

The Eight-toothed Spruce Bark Beetle (*Ips typographus*) remains high on our list of quarantine threats, especially on imported coniferous wood from Europe. We continued to have around 200 traps at strategic ports and other locations around the country and six beetles were trapped, compared to 18 in 2000-01, at five locations. There was no evidence of the beetle in any forest or other inland locations.

Pine Wood Nematode

The European Union, after the first outbreak of the Pine Wood Nematode in Europe in 1999, carried out a programme of forest and import monitoring. More than 6,000 samples, including 100 from across Britain, were analysed, but only those from the known outbreak area in Portugal proved positive. The European Union seems to have restricted the pest to Portugal, but it is too early to say whether eradication is possible.

Asian Longhorn Beetle

Measures against the Asian Longhorn Beetle were taken in Great Britain in 1999, and across Europe in 2000, but an outbreak of this pest, which damages many hardwood and fruit trees, was reported in Austria in August. A number of Norway maple was

found to be infested, and they were destroyed. The authorities are continuing surveillance against this pest, which probably arrived in wooden packaging imported from the Far East. We continue to monitor a number of high risk locations around the country, but, while there have been sightings of the beetle in imported material, we have found no evidence of attempts by the beetle to settle here.

Great Spruce Bark Beetle (*Dendroctonus micans*)

As mentioned in our last report, we carried out a review of our defences against the spread of the Great Spruce Bark Beetle (*Dendroctonus micans*). At the end of this year, we were about to put forward proposals to the Plant Health Working Group, a partnership between the Forestry Commission and industry, which will make recommendations to the European Commission Standing Committee on Plant Health.

Our review included an investigation of the pest in south-east England, where it was first discovered in 1996, in a woodland near Ashford, Kent. Foot and mouth disease hampered our surveys, but it is clear that our efforts to eradicate the beetle from this part of the country have failed and that it is now more widespread than before.

In May, the operator of a sawmill pled guilty to two charges of illegally moving untreated conifer bark from an area infested by *Dendroctonus micans* into the protected zone, and was fined £2,000 plus costs of £3,000. We were involved in prosecuting this case.

Gypsy Moth

The campaign to eradicate Gypsy moth from the London Borough of Redbridge, run jointly by us and the Department for Environment, Food and Rural Affairs, continued. The campaign, which involves traps to monitor the pest and disrupt its breeding capacity, found no larvae in local surveys and trapped only one adult moth. We believe that the population survives, but at very low levels, and we will continue the joint campaign in summer 2002.

Horse Chestnut Leaf Miner (*Cameraria ohridella*)

Horse Chestnut Leaf Miner (*Cameraria ohridella*) has not been found in Great Britain, although some further spread on the continent has been recorded. While the damage this pest causes is unsightly, it is not fatal and only old and weaker branches might succumb as a result of repeated defoliation. Nevertheless, we will issue an Exotic Pest Alert in spring to raise public awareness.

Sudden Oak Death (*Phytophthora ramorum*)

We have continued to monitor the progress of Sudden Oak Death (*Phytophthora ramorum*) in California. This disease attacks mainly tanoak, and also other genera of trees and shrubs including rhododendron and viburnum. We have investigated a number of suspicious oak deaths in this country, but have found no evidence of *Phytophthora ramorum*. However, the Department for Environment, Food and Rural Affairs announced in March that it had found the disease in five viburnum plants in a Sussex garden centre. In mainland Europe, cases have been previously found in rhododendron and viburnum in the Netherlands and Germany, and new cases are coming to light in new locations in Germany. Forest Research is assessing the vulnerability of European oaks and other genera, and early results show that our oaks and other potential hardwood hosts are at less of a risk than trees in California.

Termites (*Reticulitermes lucifugus*)

We are continuing to monitor two properties in north Devon, where termite activity was previously recorded; this will continue for ten years after the last detection of activity.

Wooden Packaging Material

There has been a number of significant developments this year concerning the spread of pests in wooden packaging material, such as pallets, crates, cases, boxes, cable drums and dunnage (loose wood used to wedge or support cargo).

In March, an International Standard was adopted by the Interim Commission on Phytosanitary Measures, set up by the Food and Agriculture Organisation of the United Nations. We were involved in drawing up the Standard, which took two years.

We also worked closely with the UK wood packaging and pallet manufacturing and repair industry to set up a new register of manufacturers and repairers. This was launched jointly with the Timber Packaging and Pallet Manufacturers Confederation in October. Companies that are registered and, if appropriate, have had their treatment facilities verified, can use a mark that shows that their packaging materials are made in the UK to an agreed plant health standard, and that all materials can be traced back to their point of origin. Wood packaging material produced under this new programme can be re-used on its return trip without being treated, which reduces costs and waste. This is particularly important when the material is returning from Canada, China, Japan or America.

The programme is a stepping stone for our wood packaging industry and will enable companies to prepare for the requirements of other countries as they implement the International Standard. The new programme improves the ability of UK companies to export internationally.

Plant Health (continued)

In October, new rules intended to combat the spread of pine wood nematode came into effect. The legislation – the Plant Health (Forestry) (Great Britain) (Amendment) Order 2001 (SI 2001 No. 2995) – reflected European Union emergency measures following earlier action by Finland after the detection of the pest in imports from Canada, China, Japan and America. To meet the rules, we have devoted much effort to identify and inspect relevant imports.

In the first 4 months after the new rules were introduced, we carried out 738 checks and found 393 consignments where wood packaging was present.

Of these, 299 did not meet the new requirements. In most cases, we issued written warnings.

We are addressing two issues that have arisen from our early experiences. First, it is not always clear whether imported consignments have wood packaging, and we are campaigning to have this declared as part of the import clearance process. Second, inspectors can be at risk opening containers that have been fumigated, and again we are pressing to have this declared. We expect the Health and Safety Executive to develop a safety code.

Forestry Commission Organisation and People

Forestry Devolution Review

When Forestry Ministers announced¹ in May the completion of the first stage of the review of the Forest Enterprise executive agency, they also said that they intended to review the options for further decentralisation of forestry policy and management.

The forestry devolution review was announced in December 2001² and is considering the current administrative arrangements for delivering sustainable forestry policies in England, Scotland and Wales and the UK's international forestry commitments, including options for further devolution of these arrangements. The review is being undertaken by officials from the Forestry Commission, the Department for Environment, Food and Rural Affairs, Scottish Executive, the National Assembly for Wales, the Cabinet Office and the Treasury. The Northern Ireland Department of Agriculture and Rural Development is also involved in the review. A consultation document was issued by the Review Group in February with responses due by the end of April 2002. The Review Group is due to submit its recommendations during the summer.

Modernising Government

We continued to improve the delivery of our services, in line with the Modernising Government White Paper (Command 4310) and the programme of reform of the Civil Service. In particular, we launched a programme of change that was designed primarily to bring together all our staff to achieve improvements in Britain's forestry.

As part of the effort to develop a national action plan, more than half of our staff took part in more than 40 focus groups. This plan confirmed that the Forestry Commission needed:

- 🌲 clearer direction and leadership, so that all staff know our purpose and values;
- 🌲 better people management skills and working relationships, so that staff can develop and make better contributions;

- 🌲 better communications, so that we communicate in a more informal way, we have more face to face communication and more two-way communication; and
- 🌲 more empowerment and trust, so that we can develop more flexible ways of working and a more adaptable organisation.

By the end of the year, the plan was well on the way to being put into action. We will review how effective it is by repeating in autumn 2002 a staff survey we first carried out in September 2000.

Other important achievements during the year were:

- 🌲 continuing to develop the leadership skills of our senior and middle managers; more than 250 managers took part in leadership events;
- 🌲 following-up the leadership events, to check that managers were given the tools to lead their teams through change;
- 🌲 making more improvements in the diversity of our staffing; this included appointing the first woman to a senior Civil Service post in our organisation;
- 🌲 taking part in the Public Service Leaders Scheme, organised nationally by the Cabinet Office; one member of staff was in the first group of 100 leaders;
- 🌲 increasing (to its highest-ever level) staff exchange with other parts of the Civil Service and outside bodies; during the year, five seconded staff joined us and 12 of our staff left on secondment to other bodies;
- 🌲 starting a business improvement process, based on the EFQM (formerly the European Foundation for Quality Management) model, in 13 parts of the organisation;
- 🌲 carrying out 360 degree feedback for all senior Civil Service staff and introducing the new service-wide pay and performance management system for senior staff;

Forestry Commission Organisation and People (continued)

- 🌲 completing the second stage of the five yearly review of Forest Enterprise and starting the first stage of the review of Forest Research;
- 🌲 putting into action our e-business strategy, which is designed to improve the electronic delivery of our services to the public and business, for example by developing standards for the transfer of data to and from timber customers. This puts us well on course to meet the government-wide target of allowing all relevant services to be provided electronically by 2005; and
- 🌲 improving our understanding of the management of risk, by preparing a risk management statement ready for publication later in 2002.

This is a very complex development, and we have brought in external expertise, knowledge and guidance to allow us to deliver this system. We estimate that the new system will take two years to develop and put into operation. We applied for and were given funding for this project from the Invest to Save Fund, which is run by the Treasury and the Cabinet Office. In the meantime, we have been looking at our existing system in order to make short-term improvements in our services to customers, including improved electronic application forms, contracts and payments and a map-based public register for people with whom we consult.

Review of the Administration of Grants and Licences

As part of our commitment to provide the best possible service to our customers, we commissioned a review of the way we operate our grants and licences (G&L). The review recommended that we should revise our plans for a new computer system to meet the future needs of our grants and licences operations. After consulting with our customers, and carrying out extensive business analysis, we will shortly begin to develop a new system that will allow us to exchange visual and text data with applicants, and to operate a better grant application and payment process. We want the system to be flexible enough to deal with the range of incentives offered in England, Wales and Scotland, and to be able to connect with the computers systems operated by our partners and other government departments.

Our website: <http://www.forestry.gov.uk>

Our use of the internet as a prime communications tool proved valuable at the start of the year, when foot and mouth disease affected the countryside. Our website became a focus of attention when people looked for places to go in the countryside. Daily updates kept people informed about woods that were open to visitors, and other pages kept contractors up to date with latest developments and guidance.

Almost every Forest District took part in a pioneering campaign that featured the only web pages in Britain where the best autumn colours could be seen. The campaign, which won much praise in the media, included public information packs, a telephone enquiry line and national, local and specialist public relations activity in support of the web pages.

Our website increased in popularity during the year, from around 30,000 pages read a month to a peak of more than 30,000 pages read a day, and won praise from a variety of media outlets, including Amazon (<http://www.amazon.co.uk>), for the accuracy and usefulness of its information. We continue to develop the site, and around 80 local publishers across the organisation add to and maintain its content. High-profile developments have included support for Forest Enterprise campaigns and a separate website for the Treefest 2002 event (<http://www.treefestscotland2002.org.uk>).

Shows

We were not able to take part in this year's agricultural shows because all three were cancelled due to the foot and mouth outbreak.

Senior Staff Appointments

Wilma Harper replaced Eddie Arthurs as Director, Finance and Corporate Planning when he retired in January 2002.

Awards

As well as the Gift to the Earth award (see page 10), Forest Enterprise was commended in the Business Commitment to the Environment Awards for its exemplary efforts in creating environmentally sound, socially acceptable and sustainable forests.

David Bills, Director General, was awarded the CBE.

Harry Fetherstonhaugh, former non-executive Commissioner, was awarded the OBE.

Donald Thompson, deputy surveyor of the New Forest, was awarded the OBE.

John Griffiths, wildlife ranger in the former Canolbarth Forest District, was awarded the MBE.

Jim Pratt, head of pathology in Forest Research, was awarded the MBE.

David Lonsdale of pathology branch in Forest Research received an International Society of Arboriculture Merit Award for his outstanding contributions to the promotion of arboricultural knowledge.

The South Wales area office received a Rural Wales Award for its care of the local environment.

West Midlands Forest District won a Loo of the Year award for the toilets at Birches Valley Visitor Centre at Cannock.

Tay Forest District received the Scottish Environment Protection Agency's National Habitat Enhancement Initiative Award for its work in improving habitats for great crested newts in Pitmedden Forest, south of Perth.

Grampian Conservancy, along with Moray Council, received a Scottish Executive-Royal Town Planning Institute commendation in the Scottish Awards for Quality in Planning for its Moray Indicative Forestry Strategy.

Forestry Commission Organisation and People (continued)

Health and Education

After the end of the foot and mouth outbreak, we launched the Forest Fitness campaign across Great Britain, to encourage people back into our forests and woodlands for some fresh air and exercise. We produced publicity materials and new web pages for the public, detailing our best bike rides and walks. National, local and specialist publicity attracted 3,000 requests for packs to our public enquiry line and more than 5,000 visits to our website.

During the course of the year, the Forestry Commission Education Steering Group, chaired by Forestry Commissioner John James, developed a strategy for learning, which laid down a policy statement and six principles to guide our work on learning. It also suggested a model for how the strategy could be adapted by each country to fit its own learning agenda.

Forestry Training Services (FTS)

FTS offers a wide range of training events and during the year we were involved in the following initiatives:

- 🌲 sustainable forestry – we plan to recruit two new training staff in the coming year. A major part of their portfolio of work will be to help FC staff manage biodiversity, social inclusion and recreation issues;
- 🌲 developing and delivering people management and leadership events:
 - essential skills for managers – designed for the new manager or current manager who wishes to check and update their current skills against best practice;
 - the challenges – designed for staff managers dealing with difficult people and situations;
 - leadership events – valuing and supporting people and change. This event is designed to help people manage change and diversity by using better communication, influencing skills and understanding the culture within which they work;

providing mentoring support to mentees/mentors;
develop and deliver a new entrant event; and encourage better staff management by providing events for managers on coaching and feedback skills.

- 🌲 working with the Forestry Contracting Association, FASTCo (LANTRA), the industry and the colleges to help raise standards.

For example:

forestry machine operators certification scheme – this event was designed and piloted last year and has been rolled out to the Forest Enterprise and the industry this year. 548 candidates have been assessed in 2,134 units of competence. This work has been conducted through the FTS approved centre for the delivery of Vocational Qualifications and Certificates of Competence; and Risk Assessment Workshops.

- 🌲 we have worked with Forest Enterprise to develop new events. For example: Contract management, risk assessment for office managers; and life in the Deadwood.

- 🌲 we have worked with others to develop and train users in our IT systems:
 - business objects/Web intelligence – using the Web intelligence reporting tool allows us to train users to build their own non-standard reports using various database applications; and
 - ecological site classification (ESC) – IT based management aid tool for species and woodland choice.

- 🌲 desktop training.
 - we offer training in all current Microsoft Office desktop products and online training through the FTS Intranet site. We are planning to add people skill modules to our online training suite in the coming year.

Health and Safety

The Forestry Commission is committed 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. We are also committed to taking good care of the welfare of our employees.

During the year, we acted to continue the work of the Health and Safety Executive initiative on managing health and safety in forestry. In particular, we have worked to carry the initiative into health and safety in timber transport. We have acted in partnership with the private sector and with other government departments to fund research to improve the safety of cross loaded timber.

We have carried out health and safety support visits to all our Forest Districts and most Conservancies. We have encouraged Forest Districts and Conservancies to set the agenda and used the visits to address problems that staff identified when managing health and safety. Issues raised included public access through worksites, risk assessments and how to make them realistic, managing recreation and contract management.

The table below shows the number of reportable accidents at work for all staff in 2001-02 and the previous years. We are encouraged by the overall decline in accident rates, which is partly due to the higher profile given to health and safety in all forest operations.

Year	No. of accidents per 100 employees
2001-2002	1.07
2000-2001	1.66
1999-2000	1.64
1998-1999	1.47
1997-1998	1.54

Introduction by the Chief Conservator

The government's forestry strategy A New Focus for England's Woodlands, published in 1998, continues to guide our activities. At the heart of the strategy are four interrelated programmes, which reflect the government's wider social, environmental and economic priorities. These are:

-  forestry for Rural Development;
-  forestry for Economic Regeneration;
-  forestry for Recreation, Access and Tourism; and
-  forestry for the Environment and Conservation.

This report reviews our work during the year in each of these programmes, and also the first year's progress against our Corporate Plan targets for 2001-04.

We regularly report our progress in implementing the strategy to the England Forestry Forum, chaired by England's Forestry Minister, Elliot Morley MP. The Forum plays an important role in ensuring that real progress is made in turning the strategy's vision into reality. In January 2001 working groups set up under the Forum made 47 recommendations for further action on issues such as training, land regeneration, the protection of ancient semi-natural woodlands and community forestry. In October 2001 the government published its response, and we are now working with the Forum and other groups on the implementation of many of these recommendations. Copies of all the reports and papers associated with the Forum can be read on our website.

Last summer we held a scenario planning workshop with a range of key stakeholders. The workshop considered what progress we should be aiming to make in implementing the England Forestry Strategy by 2010. A number of themes emerged including the need for us to respond more flexibly to distinctive regional needs in implementing the strategy. This had also been highlighted in the Forum working group recommendations. We have now decided to produce regional expressions of the England Forestry Strategy. Over the coming year, in the light of the government White Paper Your Region, Your Choice, we will be issuing guidance to our Conservators in the regions on how these should be prepared.

The conclusion from the scenario planning workshop and the Forum's work during the past year is a positive one. It is encouraging to find – three years on – how the spirit of the England Forestry Strategy is embedded in partner organisations, and that the priorities we are pursuing retain broad support.



Paul Hill-Tout
Chief Conservator

Sustaining England's Woodlands

Grant-Aid under the England Rural Development Programme

The England Rural Development Programme sets out the government's support for agriculture, forestry and the rural economy over seven years beginning in 2000. The programme includes the Woodland Grant Scheme, which provides incentives for people to create new woodlands and to manage existing ones.

Tables 1,2,3 and 4 show the main figures for the grants paid in 2001-02 under the scheme, both in terms of area and money. The new planting figures are lower this year mainly because the outbreak of foot and mouth disease and bad weather caused disruption to planting schedules, leading to a number of late claims for grants being rolled into the next financial year.

National Inventory of Woodland and Trees.

The latest inventory for England was published in November 2001. This report presents the results of the latest in a series of Forestry Commission surveys carried out at intervals of between 15 and 20 years since 1924. According to this inventory:

-  there are 1.3 billion trees in the English countryside; that's around 25 trees for each person;
-  the total area of woodland is 1,096,000 hectares; that's around 8.4 per cent of the land area, which is a long way short of the European Union average of 36 per cent; and
-  broadleaved woodland is the dominant forest type making up 52 per cent of all woodland, with conifer woodland at 27 per cent, mixed woodland at 13 per cent and open spaces in woodlands at 7 per cent.

Sustaining England's Woodlands Review

During the past year we began a fundamental review of our support for England's privately owned woodlands. The review is led by a steering group chaired by Forestry Commissioner Anthony Bosanquet, and includes representatives from

woodland owners' and managers' organisations, and other key stakeholders. It is examining not only grants, but the full range of mechanisms that support sustainable forest management and deliver the priorities of the England Forestry Strategy. The steering group will shortly be putting recommendations to the Forestry Commissioners and a government response is expected in Autumn 2002.

Woodland Creation Review

The government is currently reviewing the component schemes of the England Rural Development Programme in preparation for its mid-term review in 2003. As part of this, we are conducting, in partnership with the Department for Environment, Food and Rural Affairs, an evaluation and review of the objectives and operation of woodland creation grants in England under the Woodland Grant Scheme and the Farm Woodland Premium Scheme. We expect the steering group to make its recommendations by November 2002.

Woodland Initiatives

We continued to support a series of regional and local partnerships and initiatives. These help to deliver the England Forestry Strategy by supporting woodland management and creation, wood related industries, networking and training. We have commissioned, jointly with the Countryside Agency, an evaluation of the effectiveness of woodland initiatives and the conclusions will contribute to the Sustaining England's Woodlands Review.

Felling Regulations

We continue to exercise strict controls on felling. We approved 2,170 Woodland Grant Scheme plans during the year, of which 1,148 contained licensable thinning and felling work. Through the Woodland Grant Scheme, we licensed thinning operations on 15,316 hectares of woodland. We also licensed a further 1,164 hectares of clear felling, 495 hectares of selective felling and 860 hectares of coppicing. We also issued 1,131 felling licences that were not linked to Woodland Grant Scheme plans, compared

Sustaining England's Woodlands (continued)

with 1,147 last year. These licences covered 514,162 cubic metres and 85 per cent of this was for unconditional thinning operations.

We received 178 reports of illegal felling from the public. After checking our record of approved felling, we investigated 26 in more detail. This year we sought 15 prosecutions and have 12 serious cases still being resolved. In 11 less serious cases, we issued formal warnings to those involved. During the year 8 restocking notices were served following successful prosecutions; there was one appeal.

Our Conservators continued to receive forest design plans from Forest Enterprise for proposed felling operations. These plans are subject to external consultation on the same basis as private sector grant-aid and felling licence applications. We have now approved plans covering more than 209,000 hectares, around 87 per cent of the Forestry Commission estate.

The Deer Initiative

The Deer Initiative was established in 1993 and has brought together a range of land management and animal welfare interests to build consensus on the need to manage wild deer. In 1999 we appointed consultants to prepare a development strategy for the initiative. As a result of this, the initiative restructured itself to form a wider Council of partners and became a charitable company, limited by guarantee, to carry out a number of actions identified in the development strategy. These are focused on developing a network of effective deer management groups in priority areas in England.

A total of 23 groups has now been set up and links with ten others have been made, and two regionally based deer liaison officers have been employed. Last year deer management was temporarily hampered by the outbreak of foot and mouth, however, the initiative's advice on deer-related issues during the crisis was welcomed by Ministers. Given the success of the initiative, we have agreed to extend core-funding for a further two years until June 2004.

Forestry for Rural Development

Our Rural Development programme covers forestry's role in the wider countryside, including its contribution to the rural economy.

The programme focuses both on the role of new woodlands and on how existing woodlands can be managed to deliver more benefits to local economies, by creating jobs both upstream and downstream of the forest industry.

Foot and Mouth Disease

The outbreak of foot and mouth disease led to the Forestry Commission's unprecedented decision to close all of its forests for public access on 1 March 2001. This was a precautionary measure to reduce the risk of spreading the disease. In the following months forests were re-opened after risk assessments of each site and advice from the government's veterinary service.

The outbreak showed the important role that woodlands and forestry play in rural tourism, especially in areas such as the Forest of Dean and the New Forest, and the scale of the economic activity that depends on them.

The government set up its Rural Task Force to co-ordinate views from a range of stakeholders on the implications of the outbreak for the countryside. The Forestry Commission was represented on the task force, and played an important role in the government's campaign to encourage tourists and visitors back to the countryside.

We organised various events, including last November's Light Shift in the Forest of Dean. This was a highly imaginative project that brought together several artists to create light and sound installations in the forest. The South West Rural Development Agency helped to fund the event, which attracted 40,000 people and provided a boost to tourism businesses in the area. We are also involved in the Your Countryside, You're Welcome initiative launched in February 2002.

Venison

The export ban put into force during the outbreak of foot and mouth disease severely disrupted the venison market. However, by working closely with Rick Bestwick, our main marketing partner, we maintained cull levels, although venison prices were much reduced. Consumer confidence was kept high by our ability to confirm the quality of the venison through our Ranger Standard and by our tracing process.

Ospreys

Our work to encourage the nesting of ospreys in the Lake District, and their hatching of chicks, led to us setting up a public viewpoint (see also page 37). During the year around 20,000 people visited the viewpoint giving a substantial boost to the local economy, which had been badly hit by the foot and mouth outbreak.

Forestry for Rural Development (continued)

Rural Development Programme

Our progress towards Corporate Plan targets for 2001-04 is shown in Table 6. Other significant achievements during the year are outlined below.

South West Challenge Fund and Locational Supplement

The South West Forest in Devon and Cornwall was launched in 1997. In 1999 we introduced a new support package made up of a Challenge Fund and Premium as part of the Woodland Grant Scheme. In the first three years, the pioneering work of the South West Forest has secured almost £4 million from these grants and created 1,600 hectares of new woodlands. Given the success of the project in helping to deliver rural regeneration, we decided to extend these special grant-aid arrangements for a further three years until 2004.

Wood Fuel

As part of the government's commitment to generating ten per cent of the United Kingdom's electricity from renewables by 2010, it was announced last year that £100 million would be set aside to boost the development of renewable technologies. In November 2001 the government's Performance and Innovation Unit recommended how this money should be spent. The unit proposed: £10 million for capital grants for energy crops and forestry wood fuel; £3.5 million for grants to develop the physical and market infrastructure to support energy crops and forestry wood fuel; and £2 million capital grants for small scale industrial heat from energy crops and forestry wood fuel. This is the first explicit recognition by Government of the potential for existing woodlands and forestry to produce renewable sources.

In February Energy Minister Brian Wilson launched the Community Renewables Initiative. The initiative is supported by a number of partners including the Forestry Commission and is designed to increase the use of renewable energy projects (including wood fuel) in ten different areas of England. There is a valuable woodland resource in this country of

more than one million hectares. These new markets for wood products will benefit the environment and local economies. We therefore intend to play a leading role in helping to create the links between woodland owners and users, and also establish support mechanisms and connections with existing woodland owners.

We continue to raise awareness of the potential of wood as a source of fuel on a small scale, or in the initial stages of power plant generation. We have developed with partners a computer CD-Rom to help in this process. We are also working closely with the Department for Environment, Food and Rural Affairs to develop a supply chain that is capable of incorporating purpose grown energy crops and material supplied from forests.

Tree Stations

Last year, we reported how tree stations in urban areas can offer opportunities to both recycle wood and sell products manufactured from local trees. During the past year we have continued to develop this concept with partners. Surrey County Council, with support from the South East Economic Development Agency, is to develop a tree station at Norbury Park, and this will include a woodfuel boiler. Tees Forest also hosted a seminar for local authority stakeholders on how the tree station concept might be used in the community forest.

Sweet Chestnut

Last year we reported on efforts to retain existing and attract new entrants to the sweet chestnut industry. Since then we have chaired three stakeholder meetings with Kent County Council and industry representatives including growers, manufacturers and cutters to update them on how this could be developed. The results of the pilot to train cutters were also presented. Together with partners, we submitted a bid to the European Social Fund. This led to an award of £43,000 to train 28 coppice workers to meet current legislation and also to fund a series of health and safety workshops.

Timber Production

A total of 1.4 million cubic metres of timber was harvested from the Forestry Commission's forests in England. Further production was hampered by the effects of foot and mouth disease, sawmill closures, increased use of recycled fibre and competition from imports due to the strength of sterling. Our timber production supports significant employment and economic activity in the harvesting, haulage and wood processing sectors throughout England.

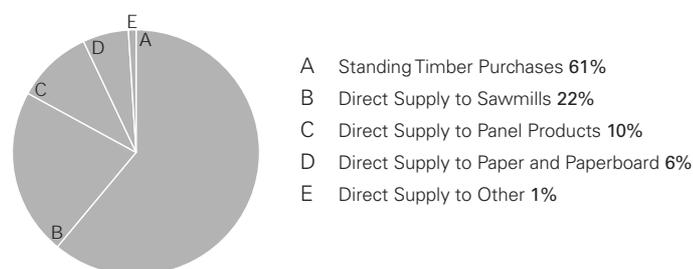
61 per cent of the volume was sold as standing trees with the balance coming from Forest Enterprise's own harvesting activity. Thinning operations contributed 40 per cent of the volume. This demonstrates the continuing improvement of both timber quality and the landscape and environmental values of the nation's woodlands. Despite difficult market conditions, total timber income was £20.6 million.

Forest Enterprise continues to place particular emphasis on the thinning and improvement of its hardwood timber resource, particularly in Southern England. 139,000 cubic metres of hardwood was harvested during the year made up of both high quality stems for the bespoke building and furniture markets, and thinning of 3,300 hectares of younger woodlands to promote timber quality and improvement of biodiversity values. The key partners in enabling the thinning and management of our broadleaved woodlands are two timber processors, St Regis Paper Company and Charltons of Frome. A reliable source of hardwood timber is vital to both companies and much of this is supplied through long-term contract arrangements with Forest Enterprise.

Markets in general have been depressed during the year, and more sawmills have closed. The industry will have to continue to work together to sustain processing and the significant income it provides

for the management of woodlands. We see a viable and efficient harvesting and marketing sector as essential to fund the sustainable management of woodlands, in pursuit of a number of objectives.

Main Market sectors for Forest Enterprise timber 2001-02:



Development of Timber-Based Industries

Forest Enterprise plays an important role in the long-term development of timber-based industries. This year it continued to develop its long-term timber contracts which give stability for harvesting contractors and timber processors. These are a key means of securing investment in harvesting, haulage and processing sectors and supporting stable employment opportunities. Three sawmills have made significant new investment in processing capacity, and their decisions have been supported by long-term Forest Enterprise supply commitments. We have put considerable effort into working with customers in the East Anglia market to reinvigorate the processing sector and promote more investment.

Forestry for Economic Regeneration

Our Forestry for Economic Regeneration programme outlines a number of ways in which woodlands can contribute to strategic land-use planning. Our priorities include restoring former industrial land and creating green and attractive settings in which to attract inward investment.

Our progress against Corporate Plan targets for 2001-04 is shown in Table 6. Other significant achievements during the year are described below.

National Priority Areas

During the past year we have developed revised criteria for establishing national priority areas for the Forestry for Economic Regeneration programme for 2002-03 onwards. The priorities are now closely aligned with the government's Index of Deprivation and the distribution of brownfield land. This gives our Conservancies a strategic framework in which to develop appropriate support arrangements, and also work with others to attract European Union Funds in Objective 1 and 2 areas.

Integrated Government

We were involved in setting up a group drawn from a number of government agencies to review the interaction of forestry and regeneration policies, and to recommend ways of developing new woodland in appropriate areas as part of a broader strategic and holistic approach to regeneration.

The group included senior officials from the Office of Deputy Prime Minister, English Partnerships, Environment Agency, the Countryside Agency, the regional development agencies and ourselves.

The group is helping to strengthen links among departments and agencies and promote the exchange of information. For instance, it is increasing people's recognition of the role that woodlands can play in helping to deliver the objectives of the Office of Deputy Prime Minister; it has led to the specific mention of woodlands in the corporate planning guidance given to regional development agencies; and it has led to a discussion between the Forestry

Commission and the Environment Agency on guidance and protocols for woodland restoration standards. The group is expected to report to Ministers later this year.

Developing Best Practice

Together with English Partnerships and the regional development agencies, we are developing an innovative software package that will support decision making on land reclamation. This will help promote best practice for people drawing up specifications for establishing woodlands on brown-field sites. The trials, led by our Land Regeneration Unit, have so far successfully focused on colliery sites, but will now move on to examine other brown-field land types. We plan to make the software widely available, once it has been fully tested.

Accord with English Partnerships

We launched a three year programme of initiatives outlined in a new publication *A Growing Partnership* in November 2001. English Partnerships and the Forestry Commission set out how we will work together to deliver shared regeneration objectives. The programme aims to ensure that the planting of woodland and green spaces becomes an integral part of the regeneration of our towns and cities, in line with the government's England Forestry Strategy and Urban White Paper.

The partnership is a milestone in our maturing relationship with those in the regeneration sector. We are together working on a number of joint initiatives. New community woodlands are being created on 300 hectares of restored land at former colliery sites in Yorkshire and on 100 hectares of reclaimed land in the north east of England.

England's Community Forests

In the past year, 400 hectares of new woodlands were created with support from the Woodland Grant Scheme. This brings the total planting in Community Forests since 1991 to over 8,000 hectares. Together with the Countryside Agency,

the Department for Environment, Food and Rural Affairs, and the 12 Community Forests we are looking at the options for continuing the programme beyond 2005.

Capital Modernisation Fund (CMF)

The £9 million Capital Modernisation Fund programme has progressed well over the past two years. The programme is focused on the Mersey, Red Rose and Thames Chase Community Forest areas. Supported by the Land Regeneration Unit, 1,023 hectares have been acquired, with a further 132 hectares now in progress. £2 million of additional funding was generated in the first year, with a further £1.3 million in 2001-02. On each site an extensive community consultation has been carried out. These consultations improve our site designs, and also demonstrate that there is a good deal of public support for the new woodlands.

Long-term Management

Work by English Partnerships and Groundwork has shown that regeneration organisations are unwilling to enter into long-term commitments to turn brown-field land into what they term soft end uses (such as woodlands) without support to ensure their long-term viability. These organisations also have concerns on liability issues relating to long-term tenure, insurance and risk transfer. We are working with English Partnerships and Groundwork to develop a land reclamation trust to help address these issues.

Urban Green Spaces

The final report of the Urban Green Spaces Taskforce was launched in May 2002. The report Green Spaces, Better Places is a significant document in relation to urban green space policy. The report recognises that trees and woodland have a very important part to play. We are also recognised as one of several government departments with both a remit and expertise to lead in this area. The report underlines the broad range of government policy areas that green spaces contribute to and gives a valuable context for our own work around towns and cities.

Research

Our research programme includes work on the reclamation of man-made sites for forestry. This work, managed by our Forest Research agency, includes experimental research focusing on heavy metal contaminated land, compacted ground and the assessment of pyrite content of coal and other spoils. We acknowledge that we have a significant challenge to build the economic case for how woodland contributes to wider economic development. In support of this, Gloucester University has been contracted to monitor, over a long-term, the performance of the Capital Modernisation Fund in delivering economic regeneration objectives.

Forestry for Recreation, Access and Tourism

Our Forestry for Recreation, Access and Tourism programme promotes more and better quality public access to woodlands. It also includes opportunities for ensuring that woods and forests continue to be used for a wide range of recreational pursuits as well as supporting the tourist industry.

Our progress against Corporate Plan targets for 2001-04 is shown in Table 6. Other significant achievements during the year are outlined below.

Dedicating Woodlands for Access

The Countryside and Rights of Way Act 2000 allows landowners to grant access to their land in perpetuity. We are working closely with the Department for Environment, Food and Rural Affairs and the Countryside Agency to develop regulations for this. During the public consultation phase we organised five seminars in England and Wales, which more than 350 people attended, to explain the draft regulations to woodland owners and managers and to ask for their feedback.

A research project involving a number of agencies is now looking at incentives and support mechanisms for countryside access, and this is due to be completed in summer 2002.

The Forestry Commissioners have agreed in principle that our own estate should be dedicated. We presented initial proposals to Ministers in February 2002. We currently allow public access on foot to all of our woods and forests, except where legal or management constraints prevent this. Dedication of our estate will not in itself increase the area of woodland open to the public, but will allow access to continue, even if the land is sold.

Support for Access to Woodlands

The Community Woodland Premium, introduced in 1992, encourages people to create new woodlands that will give access and recreational facilities near towns and cities. A total of 750 hectares was established with the support of the premium during the year, bringing the total area funded since its launch to more than 7,400 hectares.

We have recently introduced better systems to measure our achievements in woodland access. In the past year our grant-aid supported 8,500 hectares of woodland access (of which 2,800 hectares are close to towns and cities). This includes new woodlands established with the support of the premium and existing woodlands that did not previously have public access.

Woods for People

We are working with the Woodland Trust on a project called Woods for People. This project will collate information on accessible woodland from a variety of organisations such as the National Trust, the Royal Society for the Protection of Birds, wildlife trusts and local authorities. The final database will, for the first time, allow a strategic assessment of where access to woodlands is currently provided and where more resources to secure more access may be needed.

The National Forest

The Forestry Commission showed its continued support for the National Forest in June 2001 with a new formal agreement and joint action plan covering the next three years. This included three main objectives:

-  to promote woodland recreation and tourism in the forest;
-  to help build a thriving woodland-based economy;
-  to increase the size of our estate in the National; and Forest by 500 hectares by 2005.

We also made a commitment to devote more staff time to joint projects with the National Forest Company. We continued to make Woodland Grant Scheme payments for new woodland creation, and together with joint acquisitions, these resulted in 71 hectares of new planting.

We also teamed with the National Forest and Jaguar Cars to begin planting what will become Britain's biggest walnut woodland at Lount in Leicestershire. We plan to plant 10,000 walnut trees on former farmland and create an attractive woodland that will be open to the public.

Westonbirt – The National Arboretum

The Secretary of State for Trade and Industry has recently granted Westonbirt the title of The National Arboretum. Westonbirt started in 1829 and was taken over by the Forestry Commission in 1956. Along with the National Pinetum at Bedgebury in Kent (also managed by us), Westonbirt has long been considered one of the most important collections of trees in the world, and now attracts over 300,000 visitors each year.

Special Events

During the year, Forest Enterprise continued to pursue its objective to make our forests more accessible to more people through a wide range of activities. The programmes of special events continue to develop in scale and imagination. More than 21,000 people attended Jools Holland and Levellers concerts at four sites – Sherwood, North York Moors, Thetford and Bedgebury. A concert with fireworks which was held at Westonbirt, attracted 6,500 people.

In the north east of England, Chopwell and Kielder Forest Festivals attracted 6,000 people, and the RAF Red Arrows display team provided an added attraction at Kielder. There was also a significant increase in public use of High Lodge in Thetford, which attracted 150,000 visitors last year. This is expected to increase further, now that we have added the high ropes Go Ape attraction and expanded the cycle franchise at High Lodge.

Forest Holidays

Forest Holidays, a business unit in Forest Enterprise, was awarded £10 million from the government's Capital Modernisation Fund in May 2001. These funds will be used during the next two years to

upgrade our most popular cabin sites at Keldy in Yorkshire and Deer Park in Cornwall, and bring them up to modern standards.

Forest Education Initiative

The Forest Education Initiative works to increase young people's understanding of the local and global importance of trees, woodlands and forest environments, the forestry industry, the timber trade and wood products industries. It operates as a partnership among the forestry and timber processing sectors, environmentalists and educationalists.

The initiative supports a number of cluster groups. Much of the initiative's success is down to individuals from these groups volunteering time and effort, and helping the initiative to deliver our aims and objectives on the ground throughout England. In the past year the number of groups has grown from 21 to 35. The executive board is now developing a fund raising strategy to ensure that this growth is safeguarded, and also sponsor new projects.

Forestry for the Environment and Conservation

The Forestry for Environment and Conservation programme embraces the role that woodlands can play in conserving and enhancing the character of our environment, our cultural heritage, and in delivering the government's nature conservation, biodiversity and climate change objectives.

Our progress against Corporate Plan targets for 2001-04 is shown in Table 6. Other key achievements during the year are described below.

New Native Woodlands in National Parks.

This challenge fund was introduced in 1998 for three years, but because of its considerable success we extended it for another two years. The challenge fund encourages landowners to submit competitive bids for creating new native woodlands. In last year's fifth round, 29 bids for 385 hectares of new woodland were accepted with a combined value of £1,075,000.

During the past five years the challenge fund has led to Woodland Grant Scheme contracts for the creation of almost 1,300 hectares of new native woodland at a total cost of £3.5 million. This has made a significant contribution to the government's Biodiversity Action Plans for native woodlands.

The Jigsaw Challenge

The Jigsaw challenge Fund is designed to reverse the fragmentation of native woodland, and to create a more robust network for threatened wildlife communities that depend on native woodlands. It was launched in September 2000 as a five year programme, with £1 million a year allocated through the Woodland Grant Scheme. So far, 465 hectares have been approved for planting, and the scheme has three more years to run. For example, Jigsaw grants in the Isle of Wight are encouraging the planting of trees to link ancient woodlands, giving the red squirrel population a larger and improved habitat.

Areas of Outstanding Natural Beauty (AONBs)

AONBs include some of England's finest landscapes (many of them woodlands) which play an important part in defining the character of the countryside. These woodlands must be effectively managed if they are to keep their character for future generations. The Countryside and Rights of Way Act 2000 included new provisions to allow better management and protection of these designated areas. Statutory bodies, including ourselves, now have a duty to conserve and enhance the natural beauty of these areas in the course of their work. Last July we signed an accord with the Association of AONBs that set out how we would do this and described the priority areas where we would work together to meet our shared objectives.

New Forest – Draft Designation Order for National Park

The draft designation order for the New Forest National Park was submitted to the Secretary of State for the Environment, Food and Rural Affairs in February 2002. The submission included advice on the administrative arrangements for the proposed national park authority. We worked closely with the Countryside Agency on the preparation of this, and the advice acknowledged the unique features of the forest, as well as the statutory roles of the Verderers and the Forestry Commission. A local inquiry on the draft designation order will start in October 2002.

Forest Enterprise and Nature Conservation

Forest Enterprise plays a significant role in delivering the government's nature conservation policies at both national and international levels. Examples of this work during the year are given below.

Lowland Heath Management and Re-creation

Forest Enterprise is the largest manager of lowland heath in western Europe, mainly through its management of the Crown lands of the New Forest. Forest Enterprise's first biodiversity plan for lowland

heath will be completed in 2002. Key achievements include the re-creation of almost 1,300 hectares, bringing the total Forestry Commission heathland to 17,300 hectares (an eight per cent increase since 1985).

Ancient Woodland Survey

The major survey of ancient woodland sites on the Forestry Commission estate in England carried out during the last two years is almost at an end. The survey is assessing the value of all former ancient woodland, and its conclusions will help us decide the details of a significant programme of restoration. This will build on the extensive restoration carried out by Forest Enterprise since 1985.

Limestone Pavement

We launched the Life limestone pavement rehabilitation project in July 2001 in Kendal. Within the habitat management area of the project, 80 hectares of conifer plantation has been converted to limestone grassland. This is now being grazed by cattle, and there has been a large increase in the population of the high brown fritillary, Britain's rarest butterfly.

New Forest Life 2 Project

The New Forest Life 2 project has run for four years. It was completed in 2001-02 and has significantly exceeded most of its original targets. The European Union has acclaimed it as one of the most successful projects of the Life programme. The work resulted in around 4,500 hectares of the New Forest Special Area of Conservation being restored to favourable conservation status. One significant output of the project was a management plan for all 29,000 hectares of this special area. This plan sets out ways of continuing to improve the quality of habitats and protecting them for future generations. The project has developed many innovative, environmentally sound and cost-effective techniques for restoring habitats that can be applied across the United Kingdom and Europe.

Kielder Mires Project

The Kielder Mires blanket bog rehabilitation project, which is funded by the Life programme, is expected to be complete by the end of 2002. The project has created 100 wader pools, and it is making good progress towards the targets for removing conifers from the mires and installing dams.

Red Kites in Rockingham Forest

We launched the Red Kites @ Rockingham project in Northants in June 2001. The project has been hugely successful, and around 8,000 members of the public visited the information centre to see the red kites and their chicks in the nest by remote video link.

Ospreys in the Lake District

Ospreys are magnificent fish-eating birds of prey with a five foot wingspan. Last year two pairs nested in England, the first for more than 150 years. Forestry Commission staff had prepared a pine tree above Bassenthwaite lake in Thornthwaite forest and one of the pairs nesting there hatched chicks in June 2001. Working in partnership with the Royal Society for the Protection of Birds and the Lake District National Park, we set up a public viewpoint. This attracted a good deal of attention both locally and nationally. During the year around 20,000 people visited the viewpoint. The interest is likely to continue since the Ospreys returned to the nest to rear their young this year.

Forestry for the Environment and Conservation (continued)

Historic Environment

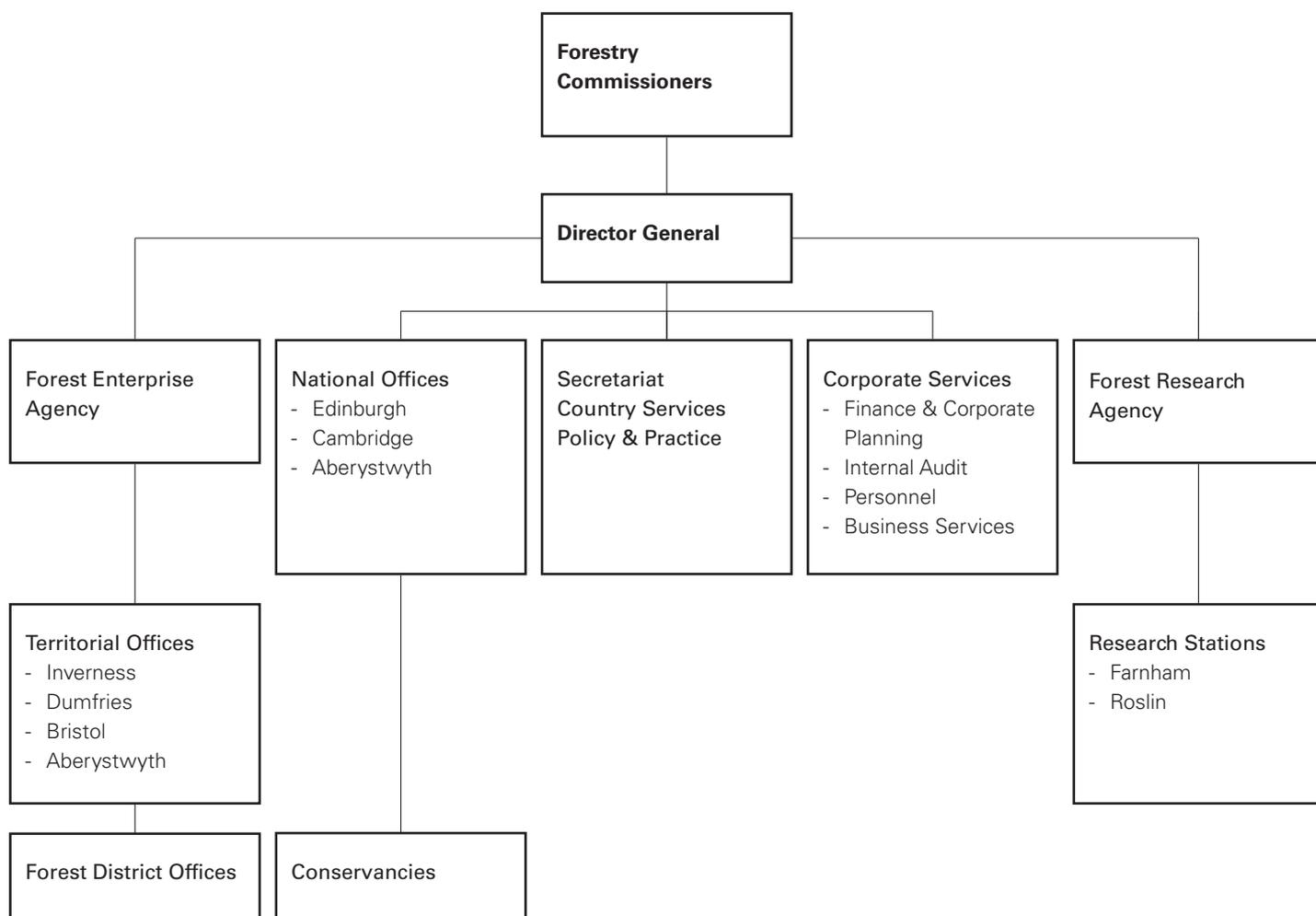
We have continued to work on the conservation of archaeological sites and historic features. Many of today's woods and forests occupy land, that has had a long and varied history. We continue to increase people's enjoyment of the historic environment by providing access and interpretation. Working in partnership with individuals and organisations is an important part of this activity. Three examples are given below.

-  at Thetford, a partnership project based on Mildenhall Warren Lodge is explaining the history of rabbit warrening in the area;
-  at Wharncliffe, now that management plans for scheduled ancient monuments are complete, a detailed survey has been carried out of this area of millstone production, which dates to prehistoric times; and
-  the significant landscape project in the Forest of Dean reported last year is also now underway, with an important contribution from local community groups.

Appendix 1

The Role and Structure of the Forestry Commission

As the government department for forestry in Britain, we have a statutory duty to promote the interests of forestry, balancing the needs of timber production with those of landscape and conservation. We are responsible for the effective carrying out of forestry policies and can do this only by working with others. We aim to be an effective, open and responsive organisation, committed to providing a first class service and striving to achieve continuous improvement. We have a structure designed to deliver government policy in England, Scotland and Wales.



Appendix 2

Forestry Commissioners and Senior Staff at 31 March 2002

Board of Commissioners

Rt Hon Lord Clark of Windermere	Chairman
David Bills CBE	Deputy Chairman and Director General
Anthony Bosanquet	
Tom Bruce Jones	
Tony Cooper	
Dr Victoria Edwards	
John James OBE	
Duncan Macniven TD	
Dr Bob McIntosh	
Andrew Raven	
Gareth Wardell	
Frank Strang	Secretary

Forestry Commission

Duncan Macniven TD	Head of Corporate Services
Frank Strang	Secretary and Head of Secretariat
Wilma Harper	Director, Finance and Corporate Planning
Jim Anderson	Director, Personnel
Alan Mitchell	Head of Business Services
Liz Holmes	Head of Internal Audit
Tim Rollinson	Head of Policy and Practice Division
Roger Herbert	Head of Country Services
Paul Hill-Tout	Chief Conservator, England
David Henderson-Howat	Chief Conservator, Scotland
Simon Hewitt	Chief Conservator, Wales

Forest Enterprise Agency

Dr Bob McIntosh	Chief Executive
Keith Gliddon	Director, Corporate Services
Peter Ranken	Director, Estate Management
Craig Heaney	Director, Mechanical Engineering Services
Alan Stevenson	Head of Environment and Communications
Ian Forshaw	Head of Forest Operations
Peter Weston	Head of Forest Planning
Geoff Hatfield	Director, England
Dr Hugh Insley	Director, Scotland (North)
Mike Lofthouse	Director, Scotland (South)
Dr Bob Farmer	Director, Wales

Forest Research Agency

Jim Dewar	Chief Executive
Dr Peter Freer-Smith	Chief Research Officer

Appendix 3

Statutory and other committees appointed by the Forestry Commission

Membership at 31 March 2002

National Committees

The Committee is appointed by the Forestry Commissioners under Section 2(3) of the Forestry Act 1967, which states that:

“The Commissioners shall by order appoint committees for England, Scotland and Wales respectively, whose membership shall consist partly of persons who are Forestry Commissioners or officers of the Commission and partly of persons not exceeding three in number, who are not Forestry Commissioners or officers of the Commissioners; and the Commissioners may delegate, subject to such restrictions or conditions as they see fit, and of their functions to a committee so appointed.”

England

John James OBE (Chairman), Bridget Bloom OBE, Tom Bruce Jones, Tony Cooper, Dr Victoria Edwards, Chris Stratton OBE, Professor Carys Swanwick, Gareth Wardell. Secretary to the Committee: Barry Sidaway. The Committee had no meetings during the year.

Regional Advisory Committees

The Committees are appointed by the Forestry Commissioners under Sections 37 and 38 of the Forestry Act 1967; their terms of reference are:

-  a to advise the Forestry Commissioners on the performance of the Forestry Commissioners' functions under Section 1(3) and Part II of the Forestry Act 1967; and
-  b to advise the Forestry Commissioners on such other functions as the Forestry Commissioners may from time to time determine. These additional functions include:
 - to adjudicate in disputed applications for grant-aid or felling licences and in disputes by the statutory bodies arising from Forest Enterprise Design Plans;
 - to advise on a small number of specific topics and issues, which the Forestry Commissioners will select, focusing on regional issues or implications; and
 - to inform the Forestry Commissioners of matters of regional or local concern on which the RAC considers it necessary to comment.

The Forestry Commissioners usually ask the Regional Advisory Committees for their views on proposed changes to the Regional Advisory Committee structure, composition or remit, or to the Forestry Commission's grant schemes and felling licence procedures and associated consultation arrangements.

Appendix 3 (continued)

England

North West England Conservancy

Professor John Handley (Chairman), Councillor Derek Bateman, John Harris, Eira Hughes, Gordon Little, Liz Newton, Martin Reynolds, Karen Slater. Secretary to the Committee: Chris Shearlock. The Committee met in June and November 2001 and January 2002.

North East England Conservancy

Professor Martin Whitby (Chairman), Clive Davies, Rod Edwards, David Fruin, Andrew Hampton, Lord Anthony Hill, Dr John Hogger, Caroline Stewart, Lorraine Weeks. Secretary to the Committee: Isabel Farries. The Committee met in June, October and December 2001 and March 2002.

Yorkshire and The Humber Conservancy

Professor Carys Swanwick (Chairman), Ian Carstairs, David Clayden, Val Dilcock, Professor Melvyn Jones, Peter Townson, Richard Walker, David Wattam, David Wilmot-Smith MBE. Secretary to the Committee: Lesley Dyson. The Committee met in April, July and October 2001.

West Midlands Conservancy

Stephen Potter (Chairman), Mike Bradbury, Dr Tony Harris OBE, Graham Hunt, Nerys Jones, Sara Roberts, Russell Rowley, Andrew Thompson, Judith Webb. Secretary to the Committee: Julia Hall. The Committee met in July and November 2001 and March 2002.

East Midlands Conservancy

Julian Purvis (Chairman), Tim Cleeves, Clive Keble, John Lockhart, James Machin OBE, Councillor Roy Mayhew, Dr Bob Middleton, Trevor Walker, Dr Brian Waters. Secretary to the Committee: Anne Jordan. The Committee met in April, July and October 2001 and February 2002.

East England Conservancy

Chris Stratton OBE (Chairman), Edward Brun, Steele Haughton, Jo Hefford, Dr Keith Kirby, John Meehan, Richard Powell, Richard Tattersall, Matthew White. Secretary to the Committee: Rose Proctor. The Committee met in June and October 2001 and March 2002.

South West England Conservancy

Sir Harry Studholme (Chairman), Dr Richard Cresswell MBE, Mark Durk, John McHardy, Dr George Peterken OBE, Tony Phillips, Chris Roberts, Valerie Whitworth, Gwilym Wren. Secretary to the Committee: Jo Scott. The Committee met in June and October 2001 and February 2002.

South East England Conservancy

Bridget Bloom OBE (Chairman), Andrew Binmore, Nigel Braden, Lyndis Cole, Martin Henderson, David Jordan, John Leigh-Pemberton, Steve Rodrick, Dr Tony Whitbread. Secretary to the Committee: Caroline Ewin. The Committee met in May and October 2001 and March 2002.

Forestry Commission Advisory Panel (FCAP)

Martin Gale (Chairman), Professor Bart Banks, Alan Bloomfield, Clive Davies, Roger Hay, Philip Higginbotham, David Hughes OBE, Andy Phillips, Councillor Ian Ross, Professor Joyce Tait, Mark Thomasin-Foster, Mike Townsend, Roger Venables, Dr Tony Whitbread, William Worsley, Len Yull. Secretary to the Committee: Theresa Andrew. The Committee met in July and November 2001 and March 2002.

Environment Sub-committee of the FCAP

Professor Joyce Tait (Chairman), Clifton Bain, Patrick Bourdillon, Stephen Craig, Angela Douglas, John Firn, David Jenkins, Richard Leslie, Nick Marshall, Professor Hugh Miller, Paul Nolan. Secretary to the Sub-committee: Marcus Sangster. The Sub-committee met in June and October 2001 and February 2002.

Supply and Demand Sub-committee of the FCAP

David Hughes OBE (Chairman), Neil Campbell, Alan Christison, Nick Purdy, Andrew Smith, Steve Smith, John Viviani, George Webb, Tony Willis. Secretary to the Sub-committee: Bob Selmes. The Sub-committee met in August and November 2001 and February 2002.

Technical Sub-committee of the FCAP

Professor Bart Banks (Chairman), David Balfour, Charles Bridgeman, Dr Christine Cahalan, Gordon Callander, Ian Forshaw, Colin Forsyth, Barrie Hudson, Gordon Little, Peter Savill, Norman Starks, Dr David Wood, Dr Richard Worrell. Secretary to the Sub-committee: Dr Helen McKay. The Sub-committee met in May and October 2001 and February 2002.

Advisory Committee on Forest Research

Professor Hugh Miller (Chairman), Dr Steve Gregory, Dr Rod Griffin, Professor Mike Jeger, Rob Kempton, Professor Brian Kerry, Dr Peter Savill, Professor Michael Usher. Secretary to the Committee: Dr Peter Freer-Smith. The Committee met in May and November 2001 and received two reports from external visiting groups on pathology and environmental research.

Forestry Research Co-ordination Committee

Tim Rollinson (Chairman), Dr John Baker, Nick Barker, Richard Brand-Hardy, Dr Melvin Cannell, Jim Dewar, Dr Alun Gee, Christine Jarvis, Dr Keith Kirby, Dr Cecil McMurray, Professor Hugh Miller, John Palmer, Dr Susan Riley, Dr David Rook, Bob Selmes, Dr Sarah Webster, Dr Tim Willison. Secretary to the Committee: Dr Peter Freer-Smith. The Committee met in April and November 2001.

Forestry and Arboriculture Safety and Training Council

Trevor Preston (Chairman), Peter Annett, Gerald Bonner, Pacelli Breathnach, Jim Brown MBE, Paul Bullimore, Jim Dewar, Jeff Dymond, Bob Evans, Keith Hawkins, Mike Henderson, Phil Higginbotham, Terry Howard, Barrie Hudson, Pat Hunter Blair, Jack Kenyon, Eddie Marshall, Ian Millward, Dr Dealga O'Callaghan, Emily Ramsay, Edwin Rowlands, Ron Shapland MBE, Rob Shaw, Edward Shepherd, Ken Sinclair, Chris Starr, Dr Jeremy Williams. Secretary to the Council: Ted Radford. The Council met in May 2001.

Appendix 3 (continued)

England Forestry Forum

The England Forestry Forum reports to the Forestry Minister for England, Elliot Morley MP, through the Forestry Commission and has the following terms of reference:

-  to share and exchange proposals for implementing the government's Forestry Strategy for England; and
-  to monitor and review progress of the implementation of the Forestry Strategy.

The Forum met in October 2001 and March 2002. At the October meeting the government published its response to the recommendations of the Forum's eight working groups on business advice, training and support; land regeneration; regional issues; land use planning protection of ancient woodlands; community forestry; landscape; and funding. The government will provide the Forum with regular reports on progress made towards implementing those recommendations it has accepted. The Forum established two new working groups on integration of woodland policy and forestry and biodiversity. These are due to report next year.

Reports of Forum meetings and all Forum papers are available on our website at:
<http://www.forestry.gov.uk/forestry/englandforestryforum>

Members of the Forum include representatives of the following organisations: Association of National Park Authorities; Community Forests; Council for British Archaeology; Council for the Protection of Rural England; Country Land and Business Association; Countryside Agency; English Heritage; English Nature; English Partnerships; Environment Agency; Forestry Commission Regional Advisory Committees; Forestry Contracting Association; Forestry Industry Council; Forestry and Timber Association; Institute of Chartered Foresters; Local Government Association; National Farmers' Union; National Forest Company; National Trust; National Urban Forestry Unit; Planning Officers Society; Ramblers' Association; North West Regional Development Agency; Royal Forestry Society of England, Wales and Northern Ireland; Royal Institution of Chartered Surveyors; Royal Society for the Protection of Birds; Royal Town Planning Institute; Small Woods Association; United Kingdom Forest Products Association; Wildlife and Countryside Link; Wildlife Trusts; Woodland Trust, Department for Environment, Food and Rural Affairs and the Department for Transport, Local Government and the Regions. The Forestry Commission provides the secretariat for the Forum.

Appendix 4

Publications

We published the following titles during the year ending 31 March 2002. All of our publications can be found on our website at <http://www.forestry.gov.uk/publications>

Reports

Annual Report and Accounts Great Britain and England 2000-01 (£21.90)

Annual Report and Accounts Scotland 2000-01 (£13.10)

Annual Report and Accounts Wales 2000-01 (Free)

Forest Research Annual Report and Accounts 2000-01 (£16.70)

Forest Enterprise Annual Report and Accounts 2000-01 (Free)

Bulletins

124: An Ecological Site Classification for Great Britain, by D Graham Pyatt, (£12.50)

125: Climate Change: Impacts on UK Forests, by Dr Mark Broadmeadow, (£25.00)

Guideline Notes

2: Short Rotation Coppice in the Landscape, by Simon Bell and Liz McIntosh, CD/Manual
Ecological Site Classification – A PC-based Decision Support System for British Forests (v1.7), (£100.00)

Information Notes

38: The Assessment of Site Characteristics as Part of a Management Strategy to Reduce Damage by Hylobius, by Stuart Heritage and Roger Moore (Free)

39: Protocol for Stem Straightness Assessment in Sitka Spruce, by Elspeth MacDonald, Shaun Mochan and Thomas Connolly (Free)

40: Transforming Even-aged Conifer Stands to Continuous Cover Management, by Bill Mason and Gary Kerr (Free)

41: Forest Condition Survey 2000, by Steven Hendry, Roger Boswell and John Proudfoot (Free)

42: Timber Cladding in Scotland, by Ivor Davies, Bruce Walker and James Pendlebury (Free)

Inventory Reports

9: National Inventory of Woodland and Trees – Scotland: Highland Region (£5.00)

10: National Inventory of Woodland and Trees – Scotland: Western Isles (£5.00)

National Inventory of Woodland and Trees – England (£15.00)

National Inventory of Woodland and Trees – England, Wallchart (Free)

National Inventory of Woodland and Trees – England: North East Region (£15.00)

National Inventory of Woodland and Trees – England: Yorkshire & The Humber Region (£15.00)

National Inventory of Woodland and Trees – England: West Midlands Region (£15.00)

National Inventory of Woodland and Trees – England: East Midlands Region (£15.00)

National Inventory of Woodland and Trees – England: South West Region (£15.00)

National Inventory of Woodland and Trees – England: East of England Region (£15.00)

National Inventory of Woodland and Trees – Scotland (£15.00)

National Inventory of Woodland and Trees – Scotland, Wallchart (Free)

Appendix 4 (continued)

Practice Notes

- 11: Practical Techniques for Surveying and Monitoring Squirrels, by John Gurnell, Peter Lurz and Harry Pepper

Technical Papers

- 32: Deforesting and Restoring Peat Bogs: A Review, by Russell Anderson (£7.50)

Miscellaneous

- Sustainable Forest Management: The International Framework

Appendix 5

Autumn Performance Report

- 1 Departmental Reports, published jointly by departments and HM Treasury at the start of each financial year, set out departmental spending plans and performance against spending review targets. Treasury carried out a Review of Departmental Reports in 2001 and it was recognised that it was difficult to capture and publish the performance data for the year just ending in the Departmental Reports. As a result departments are required to publish the actual performance for the previous year in the following autumn at the same time as the Resource Accounts are published.
- 2 This report covers the Forestry Commission's work in England and its Great Britain wide tasks in 2001-02 which is both the final year of the 1998 Comprehensive Spending review and the first year of Spending Review 2000. As a result progress is reported against the targets set for each review.

Spending Review 2000 – Progress against targets

- 3 The review covers the period 2001-02, 2002-03 and 2003-04. Performance targets were set for the Commission's activities in Great Britain and for its activities in England both of which are funded from Westminster. These were published in the Forestry Commission's Service Delivery Agreement.
- 4 The Great Britain targets and progress against them are:

- 🌲 publish in 2001 a national forest programme for the UK;

This task became part of the UK preparation for and follow-up to the World Summit on Sustainable Development in Johannesburg in September 2002. Subject to Ministerial approval, the launch of the programmes is scheduled for end October 2002.

- 🌲 develop and publish by 2002 UK and country based indicators for monitoring sustainable forest management.

The initial consultation with stakeholders was completed in June 2001. A second consultation was completed in May 2002. As with the previous target this has become part of the preparation for and follow-up to the World Summit on Sustainable Development in Johannesburg in September 2002. Subject to Ministerial approval, publication is scheduled for end October 2002.

- 5 Progress against the targets for the Commission's activities in England are given in table 6. These targets were set, in the main, to deliver the programmes of the England Forestry Strategy.

Comprehensive Spending Review – Progress against targets

- 6 The Comprehensive Spending Review (CSR) was carried out in 1998 covering 1999-2000, 2000-01 and 2001-02. The Commission's targets to be achieved in Great Britain by 31 March 2002, together with the level of achievement expected in England by 31 March 2002, are below where the achievement reported in the Departmental Report needs to be confirmed. The report is published as a chapter in the Department for Environment, Food and Rural Affairs Departmental Report (see www.defra.gov.uk/corporate/depdep). The proportion of the target attributable to England follows in brackets where appropriate. This disaggregation reflects the fact that forestry in Scotland and Wales, after devolution, is the responsibility of Scottish Ministers and the Welsh Assembly Government respectively. The targets and progress against them are:

Appendix 5 (continued)

by 31 March 2002, ensure that 1.1 million (337,000) hectares of woodlands have sustainable management plans and that 50,000 (15,400) hectares of felled woodlands are restocked;

484,000 hectares of woodland had sustainable management plans and 4,071 hectares of felled woodlands were restocked. The first target was substantially exceeded. The second undershot mainly due to private owners postponing harvesting because of low timber prices, thus reducing the need for restocking.

by 31 March 2002, provide incentives to have 57,000 (16,000) hectares of new woodlands planted and increase the use of challenge funds and tenders to buy better value public benefits without increasing generally available tariff grants. For new planting, this will be 12 per cent by area and 35 per cent by monetary value;

15,103 hectares of new planting were achieved – 60 per cent by targeted funding representing 57 per cent of the monetary value.

7 As well as these headline targets, the PSA included productivity and sick absence targets. Two core productivity indicators were identified. Firstly, the cost of timber production was to be reduced to £16.23 (£13.16) per cubic metre in 2001-02. A cost of £13.76 was achieved by the end of 2001-02. Secondly, the cost of grant administration for each £ of grant given was to be reduced from 19p to 18p (20p to 18p) in 2001-02. Due to the grant spend being lower than planned because of the fall in timber income, the unit cost in 2001-02 was 20p per £. A fundamental review of grant scheme administration has been undertaken and the introduction of the first phase of system enhancements commenced in 2001-02. The Commission had a target to reduce sick absence from 8.3 days per member of staff to 7.25 days by 31 March 2002. After an initial decrease the number increased to 8.7 days. This trend is reflected across the Civil Service. The Commission loses 3.8 per cent of working days per member of staff which is better than the Civil Service as a whole which loses 4.4 per cent. The detailed figures are:

Year to December	Certificated	Self-certificated	Total
2001	6.5	2.2	8.7
2000	5.9	2.1	8.0
1999	5.2	2.8	8.0
1998	5.2	3.1	8.3

Table 1

Area of planting by private woodland owners for which grants were paid in the year ended 31 March 2002.

Woodland Grant Scheme

Hectares

	England			Wales			Scotland			Great Britain		
	New Planting	Re-stocking	Total	New Planting	Re-stocking	Total	New Planting	Re-stocking	Total	New Planting	Re-stocking	Total
Conifer	467	398	865	30	510	540	2,933	2,056	4,989	3,430	2,964	6,394
Broadleaved	3,857	551	4,408	240	247	487	4,947	828	5,775	9,044	1,626	10,670
Total	4,324	949	5,273	270	757	1,027	7,880	2,884	10,764	12,474	4,590	17,064

Table 2

Area of planting by private woodland owners for which grants were paid in the 20 year period
1 April 1982 to 31 March 2002.

Hectares

	England			Wales			Scotland			Great Britain		
	New Planting	Re-stocking	Total	New Planting	Re-stocking	Total	New Planting	Re-stocking	Total	New Planting	Re-stocking	Total
1983	1,514	1,994	3,508	911	156	1,067	10,086	968	11,054	12,511	3,118	15,629
1984	1,480	1,935	3,415	1,064	113	1,177	14,129	1,019	15,148	16,673	3,067	19,740
1985	976	1,767	2,743	918	122	1,040	14,135	1,177	15,312	16,029	3,066	19,095
1986	984	2,346	3,330	743	434	1,177	17,292	1,559	18,851	19,019	4,339	23,358
1987	1,219	2,644	3,863	708	280	988	17,220	1,547	18,767	19,147	4,471	23,618
1988	1,679	2,718	4,397	945	476	1,421	21,197	1,660	22,857	23,821	4,854	28,675
1989	1,752	2,330	4,082	923	256	1,179	22,433	2,248	24,681	25,108	4,834	29,942
1990	3,366	3,871	7,237	552	270	822	11,488	1,984	13,472	15,406	6,125	21,531
1991	4,363	3,970	8,333	510	296	806	10,563	2,840	13,403	15,436	7,106	22,542
1992	3,966	4,042	8,008	356	579	935	9,825	3,210	13,035	14,147	7,831	21,978
1993	5,052	3,811	8,863	429	654	1,083	9,814	3,609	13,423	15,295	8,074	23,369
1994	6,091	3,700	9,791	626	441	1,067	9,180	4,314	13,494	15,897	8,455	24,352
1995	4,997	2,475	7,472	554	626	1,180	12,577	3,068	15,645	18,128	6,169	24,297
1996	4,338	1,972	6,310	442	620	1,062	10,195	3,169	13,364	14,975	5,761	20,736
1997	4,348	2,027	6,375	411	814	1,225	11,212	3,692	14,904	15,971	6,533	22,504
1998	4,123	1,984	6,107	485	804	1,289	11,304	2,737	14,041	15,912	5,525	21,437
1999	4,875	1,726	6,601	629	802	1,431	10,410	2,958	13,368	15,914	5,486	21,400
2000	5,414	1,414	6,828	744	813	1,557	10,363	3,083	13,446	16,521	5,310	21,831
2001	5,365	1,708	7,073	447	759	1,206	11,627	3,561	15,188	17,439	6,028	23,467
2002	4,324	949	5,273	270	757	1,027	7,880	2,884	10,764	12,474	4,590	17,064

Note:

This table includes planting grant-aided under the Woodland Grant Scheme in association with the Farm Woodland and the Farm Woodland Premium Schemes administered by the Agriculture Departments.

Table 3

Area of Management Grant for which grant was paid in the year ended 31 March 2002.

Woodland Grant Scheme

Hectares

	England	Wales	Scotland	Great Britain
Standard MG	108	3	2,032	2,143
Special MG	716	89	1,807	2,612
Annual MG	126,337	8,422	42,866	177,625
Woodland Improvement Grant	5,645	1,662	9,618	16,925
Livestock Exclusion Annual Premium	1,804	768	8,174	10,746
Total	134,610	10,944	64,497	210,051

Table 3 (continued)

Area Approved for management Grant under the Woodland Grant Scheme.

Hectares

		England	Wales	Scotland	Great Britain
1992-1993	Conifer	11,096	1,222	10,985	23,303
	Broadleaved	36,578	1,834	2,549	40,961
	Total	47,674	3,056	13,534	64,264
1993-1994	Conifer	18,246	3,911	41,983	64,140
	Broadleaved	39,302	1,879	5,762	46,943
	Total	57,548	5,790	47,745	111,083
1994-1995	Conifer	620	1,750	31,293	40,663
	Broadleaved	21,749	1,037	8,088	30,874
	Total	29,369	2,787	39,381	71,537
1995-1996	Conifer	4,478	1,164	9,136	14,778
	Broadleaved	15,545	1,353	4,322	21,220
	Total	20,023	2,517	13,458	35,998
1996-1997	Conifer	3,257	458	5,103	8,818
	Broadleaved	12,679	1,295	4,946	18,920
	Total	15,936	1,753	10,049	27,738
1997-1998	Conifer	5,900	885	5,808	12,593
	Broadleaved	18,474	1,189	3,890	23,553
	Total	24,374	2,074	9,698	36,146
1998-1999	Conifer	6,205	820	6,594	13,619
	Broadleaved	24,556	1,523	3,552	29,631
	Total	30,761	2,343	10,146	43,250
1999-2000	Conifer	8,563	908	5,396	14,867
	Broadleaved	24,893	1,018	4,349	30,260
	Total	33,456	1,926	9,745	45,127
2000-2001	Conifer	4,920	445	6,323	11,688
	Broadleaved	18,519	1,437	2,590	22,546
	Total	23,439	1,882	8,913	34,234
2001-2002	Conifer	5,272	1,168	10,421	16,861
	Broadleaved	21,103	2,131	4,308	27,542
	Total	26,375	3,299	14,729	44,403

Table 4

Summary breakdown of Woodland Grant Scheme expenditure by grant type.

Woodland Grant Scheme		£000
a	New Planting	
	Establishment (1st instalments)	3,549
	(2nd & 3rd instalments)	1,421
	Community Woodland Supplement	730
	Better Land Supplement	1,967
	Locational Supplement	686
	Short Rotation Coppice	5
	Short Rotation Coppice (Locational Supplement)	–
	Challenge Funding	1,088
	Tendering	–
	Total	9,446
b	Existing Woodlands	
	Restocking (1st instalments)	412
	(2nd & 3rd instalments)	538
	Discretionary Grant	59
	Standard Management Grant	3
	Special Management Grant	28
	Annual Management Grant	4,491
	Forest Plans and Native Woodland Plan Pilot	124
	Woodland Improvement Grant Challenge	12
	Woodland Improvement Grant 50%	1,060
	Livestock Exclusion Annual Premium	144
	Total	6,871
c	Closed Grant Schemes	
	New Planting	301
	Restocking	33
	Management Grants	59
	Other (Legal Expenses)	50
	Total	443
	Total Grant Expenditure	16,760

Table 5

Timber Procurement.

Product Category	Product Description	Source Certified £	Evidence £	No Evidence £	Product Spend £	% of Product Spend	% of Grand Total
A	Round Timber				149,692		33.00%
		47,429				31.70%	
			73,636			49.20%	
				28,627		19.10%	
B	Sawn Timber				189,032		39.70%
		51,203				27.10%	
			74,904			39.60%	
				62,926		33.20%	
C1	Chipboard Panels				9,444		2.10%
		1,798				60.00%	
			6,988			32.00%	
				657		8.00%	
C2	Hardwood Panels				872		0.00%
		325				37.30%	
			547			62.70%	
				–		0%	
D	Prefabricated Framing				36,972		7.50%
		25				0%	
			24,000			64.90%	
				12,947		35.10%	
E	Furniture				82,220		17.70%
		22,706				27.60%	
			16,479			20.00%	
				43,035		52.40%	
Totals		123,486	196,554	148,192	468,232		
% of Total		26.40%	42.00%	31.60%			

Note:

During the year the Forestry Commission also sold more than five million cubic metres of independently certified logs and standing trees – the entire year's timber production of the public forest estate managed by the Forestry Commission across Great Britain.

Table 6

Performance against the Spending Review 2000 Service Delivery Agreement targets.

Target Description	Expected Performance 2001-02	2002-03	2003-04	Actual Performance at 31.03.02	Progress to Target	Comment
Overall performance						
1 Area of new woodland planted (ha)	5,400	5,900	5,700	4,917	ON COURSE	Planting is seasonal and the majority takes place in the last quarter of financial year. It is however weather dependant.
2 Area of woodland brought into approved plans for sustainable forest management (ha)	450,000	475,000	500,000	484,000	AHEAD	This dependant on the rate of uptake of grants which in turn is dependant on the value of the incentive
Rural Development						
3 Area of woodland planted in Rural Priority Areas (ha)	2,540	2,730	2,730	1,908	SOME SLIP	Below target due to difficulty in progressing applications during foot-and-mouth outbreak.
4 Area of woodland in Rural Priority Areas brought into approved plans for sustainable forest management (ha)	210,000	220,000	230,000	219,700	AHEAD	
5 Volume of timber harvested from FC woodlands (million m ³)	1.4	1.4	1.4	1.435	ON COURSE	Market conditions may lead to variable demand and uplift rates for timber.
Economic Regeneration						
6 Area of woodland planted in Economic Regeneration Priority Areas (ha)	1,200	1,700	1,600	1,097	ON COURSE	See 1.
7 Area of land previously used for industry, landfill or mineral extraction restored and planted with woodlands (ha)	200	450	350	222	ON COURSE	See 1 and finalising tenure arrangements and procedures for coping with liabilities are an additional burden in progressing these challenging sites
Recreation, Access and Tourism						
8 Increase in the area of woodland with public access (ha)	1,900	5,150	4,950	2,431	ON COURSE	See 1 and 2.
9 Increase in the area of woodland with public access near major urban areas (ha)	1,350	4,350	4,300	1,468	ON COURSE	See 1 and 2.
10 Area of new woodlands in community forests or the National Forest (ha)	1,200	1,700	1,600	1,138	ON COURSE	See 1.
11 Encourage day visitors (million visitors)	Achievement of target will not be confirmed until the Publication of UK Day Visits Survey in 2006			not available	NOT KNOWN	The weather is the main factor influencing visitor numbers but FMD has had an impact.
Conservation and Environment						
12 Increasing area of ASNW with approved plans for sustainable forest management (ha)	5,000	14,000	16,000	7200	ON COURSE	See 2.
13 Area of new native woodlands planted in accordance with the UK Biodiversity Action Plans (ha)	830	1,030	1,140	1,809	AHEAD	See 1.
Efficiency						
14 Unit cost of grant administration (p/£ of grant)	20	18	16	20	ON COURSE	
15 Percentage of WGS contracts sent to applicants within 11 weeks of agreeing proposals (%)	70	77	85	70	ON COURSE	Irregular flow of applications make it more difficult to manage the service standard. The complexity of the scheme also delays the consultation stage.
16 Timber production from the FC estate (£/m ³)	13.70	13.63	13.55	13.76	ON COURSE	

Financial Highlights

Summary Income and Expenditure Account for the year ended 31 March 2002

	2002 £000	2001 £000
Income		
Forestry Commission		
EU co-financing of woodland grants	6,162	5,275
Other income	665	952
Recovery of Great Britain support services costs	14,065	11,901
Forest Research		
Forestry and tree related research	12,411	12,370
Forest Enterprise		
Sales of timber	19,635	22,448
Other forest income	4,614	6,510
Recreation income	8,988	7,208
	66,540	66,664
Expenditure		
Forestry Commission		
Grants and partnership funding	18,798	18,161
Policy, regulation and administration (England)	9,499	7,149
International policy, plant health and Great Britain support services	32,107	31,698
Forest Research		
Forestry and tree related research	12,398	12,309
Forest Enterprise		
Planning, protecting and maintaining the forest asset	13,548	13,044
Social and environmental	18,051	14,484
Timber harvesting and roads	12,076	12,586
Managing the non-forest assets	6,037	6,277
	122,514	115,708
Net expenditure for the year	(55,974)	(49,044)

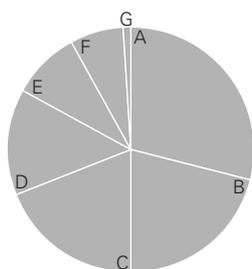
Summary Cash Flow Statement for the year ended 31 March 2002

	2002 £000	2001 £000
Net expenditure for the year	(55,974)	(49,044)
Depreciation and other non-cash items	5,736	4,625
Movement in working capital	(5,255)	(2,668)
Movement in provision and liabilities	(514)	(595)
Net cash flow from operating activities	(56,007)	(47,682)
New planting	(1,352)	(676)
Purchase of fixed assets	(6,912)	(7,160)
Net proceeds from disposal of fixed assets	5,212	1,884
Funding from UK Government	(59,059)	(53,634)

Summary Balance Sheet
as at 31 March 2002

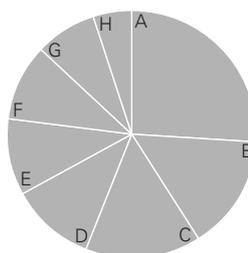
	2002 £000	2001 £000
Fixed assets	496,296	495,493
Current assets	21,667	13,973
Creditors: amounts falling due within one year	(13,532)	(6,718)
Net current assets	8,135	7,255
Provision for liabilities and charges	(2,027)	(2,541)
Total assets less liabilities	502,404	500,207
Capital and reserves	502,404	500,207

Income 2001-02



- A Sales of Timber 29%
- B Recovery of GB support services costs 21%
- C Forestry and tree related research 19%
- D Recreation income 14%
- E EU co-financing of woodland grants 9%
- F Other forest income 7%
- G Other income 1%

Expenditure 2001-02



- A International policy, plant health and GB support services 26%
- B Social and environmental 15%
- C Grants and partnership funding 15%
- D Planning, protecting and maintaining the forest asset 11%
- E Forestry and tree related research 10%
- F Timber harvesting and roads 10%
- G Policy, regulation and administration (England) 8%
- H Managing the non-forest assets 5%

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Foreword

Scope

1 Basis of Accounts

These accounts are prepared in accordance with a direction given by HM Treasury in pursuance of section 5(2) of the Government Resources and Accounts Act 2000.

2 Status

The Forestry Commission together with its executive agencies, Forest Enterprise (FE) and Forest Research (FR), is the government department responsible for advising Ministers on, and for implementing, forestry policy in each of the three countries comprising Great Britain. The legislative framework for forestry is principally the Forestry Acts 1967, 1979 and 1981, the Plant Health Act 1967, the Countryside Act (Scotland) 1967 and the Countryside Act 1968.

The Government of Wales Act 1998, the Scotland Act 1998, and the subsequent statutory instruments, specified the Forestry Commission as a cross-border public authority, transferred the Ministers' responsibilities for forestry in Scotland and Wales to the Scottish Ministers and the National Assembly respectively, transferred ownership of land and property, and made other various changes to devolve forestry to Scotland and Wales. In May 2001 Forestry Ministers announced a review of the devolution arrangements for delivering sustainable forestry policies in England, Scotland and Wales and the UK's international forestry commitments. In August 2002, Forestry Ministers agreed the recommendations of the interdepartmental group conducting the review. In particular they accepted that current arrangements needed to be updated, but agreed that this should be implemented by administrative action. The changes include much greater integration of policy development and delivery between the Forestry Commission's national offices and the rural affairs departments in Scotland, England and Wales. The Forest Enterprise agency will be devolved into three bodies, charged with managing separately the public forests in England, Scotland and Wales.

The Forestry Commission has no policy responsibility for any non-departmental public body.

Foreword (continued)

3 Departmental Accounting Boundary

These accounts reflect the assets, liabilities and results of the core-department (the Forestry Commission) in England together with international matters and topics which, though devolved, are agreed to be best delivered for Great Britain as a whole. Equivalent resource accounts are produced for the Forestry Commission's activities in Scotland and Wales. FR, an executive agency of the Forestry Commission since 1 April 1997, is within the departmental boundary funded by the UK Parliament and is consolidated in the Forestry Commission in England/Great Britain accounts.

FE, an executive agency of the Forestry Commission since 1 April 1996, is a public corporation for national accounting. Accordingly, it is outside the departmental boundary for resource accounting and produces its own accounts for each country with the net funding and net worth of FE in England reflected in these accounts.

4 Responsibilities

The Forestry Commission is responsible for:

- providing support and advice to Ministers;
- policy development;
- European and international liaison;
- implementing the Government's forestry policy, including the control of tree felling and providing advice to private woodland owners;
- administering the payment of grants for approved planting, restocking and management schemes;
- liaising with public bodies and non-government organisations concerned with forestry and the countryside;
- commissioning forestry research; and
- plant health.

The Forestry Commission sets standards for the forest industry as a whole, and monitors the performance of Forest Enterprise in the same areas of operation as those which apply to the private sector.

5 Aim and Objectives

The Forestry Commission is the forestry department of 3 administrations – the UK Government, the Scottish Executive and the National Assembly for Wales. Its aim is the sustainable management of our existing woods and forests, and a steady expansion of tree cover to increase the many, diverse benefits that forests provide to meet the needs of present and future generations. Through its powers and duties set out in the various Acts, the objective of the Forestry Commission for its Great Britain activities, is:

- on behalf of all 3 administrations, to take the lead in development and promotion of sustainable forest management and to support its achievement nationally

In England, it implements the programmes of the England Forestry Strategy whose objectives are:

- to increase the contribution of forests and woodlands to local economies and rural development (*Forestry for Rural Development Programme*);
- to expand the role of woodlands in supporting the economic regeneration of former industrial land and disadvantaged communities (*Forestry for Economic Regeneration Programme*);
- to promote public access to woods and forests and develop diverse recreational opportunities (*Forestry for Access, Recreation and Tourism Programme*); and
- to conserve and improve the biodiversity, landscape and cultural heritage of our forests and woodlands (*Forestry for the Environment and Conservation Programme*).

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

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

6 Departmental Report

The annual spending plan for the Forestry Commission in England/Great Britain is in Chapter 7 of the departmental report for the Department for the Environment, Food and Rural Affairs published in May 2002. The Forestry Commission in England/Great Britain's corporate plan was published in August 2002.

7 Post-Balance Sheet Events

There are no post-balance sheet events other than the outcome of the Forestry Devolution Review noted at paragraph 2.

Foreword (continued)

Operating and Financial Review

8 Review of Activities

The Forestry Commission in England/Great Britain produced a net resource outturn of £82,718,000 (£77,689,000 in 2000-01). A comparison of the operating cost statement with the previous year shows that net administration costs increased by £1,859,000. Staff costs increased by £1,257,000 and other administration costs by £602,000. Net programme costs increased by £3,170,000 mainly through increased funding of Forest Enterprise in England due to the fall in timber prices.

After adjusting the net operating cost for items not involving the movement of cash, for capital expenditure and financial investment, and payments to Forest Enterprise in England and Forest Research, the net financing requirement received from the Consolidated Fund was £59,059,000, compared to £53,634,000 in 2000-01.

9 Movement in Fixed Assets

Additions to fixed assets in the financial year were £943,000.

Management

10 Ministers

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

Rt Hon Nick Brown MP	Minister of Agriculture, Fisheries and Food, until 7 June 2001
Rt Hon Margaret Beckett MP	Secretary of State for the Department for the Environment, Food and Rural Affairs, from 8 June 2001
Elliot Morley MP	Parliamentary Secretary (Commons) for the Department for the Environment, Food and Rural Affairs

11 Permanent Head of the Department and Forestry Commissioners

The Board of Commissioners includes the Permanent Head of Department, (the Director General), and directs the work of the Forestry Commission. The Board of Commissioners who served during the year were:

Sir Peter Hutchison Bt CBE FRSE	Non executive Chairman (retired 30 November 2001)
Lord David Clark	Non executive Chairman (commenced 10 December 2001)
David Bills CBE	Director General and Deputy Chairman
Dr Bob McIntosh	Chief Executive, Forest Enterprise
Duncan Macniven TD	Head of Corporate Services

Non-executive Commissioners during the year were:

Anthony Bosanquet
 Tom Bruce Jones
 Tony Cooper
 Dr Victoria Edwards
 John James OBE
 Andrew Raven
 Gareth Wardell

12 Appointment of the Permanent Head of the Department and Forestry Commissioners

Non-executive Commissioners are appointed for 3-5 year terms of office by Her Majesty the Queen on advice from Ministers, following the procedures of the Commissioner for Public Appointments, including open advertisement. Executive Commissioners, including the Director General, are appointed by Her Majesty the Queen on the advice of Ministers, for the duration of the tenure of the posts to which they are recruited through normal Civil Service procedures.

Foreword (continued)

13 Remuneration

Ministers' remuneration is set by the Ministerial and Other Salaries Act 1975 (as amended by the Ministerial and Other Salaries Order 1996) and the Ministerial and Other Pensions and Salaries Act 1991.

Remuneration of the non-executive Commissioners is determined in accordance with guidelines prescribed by the Senior Salaries Review Board. The Forestry Commission's Senior Pay Committee comprises the Chairman, Director General, Chief Executive of Forest Enterprise, Head of Corporate Services and one other non-executive Commissioner. The Chairman and non-executive member determine the Director General's pay. The Chairman, Director General and non-executive Commissioner take decisions in respect of the Chief Executive of Forest Enterprise and Head of Corporate Services. The entire committee takes decisions on remaining senior staff posts in accordance with guidelines prescribed by the Senior Salaries Review Board.

Further details on remuneration are set out in Note 2 to these accounts.

Public interest and other

14 Employment Policies

The Forestry Commission and its agencies are 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. The Commission has systems to ensure that all permanent appointments are made on merit 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 from the Personnel Services unit of the Forestry Commission.

15 Supplier Payment Policy

The Forestry Commission complies with The Better Payment Practice Code. Unless otherwise stated in the contract, we aim to pay within 30 days from the receipt of goods and services or the presentation of a valid invoice, whichever is the later. A sample analysis for 2001-02 indicates that 97.6 per cent of invoices paid by the Forestry Commission and 99.2% of invoices paid by Forest Research were paid within the due date. Arrangements for handling complaints on payment performance are notified to suppliers on contracts.

16 Auditors

The accounts of the Forestry Commission in England/Great Britain are audited by the Comptroller and Auditor General.

D J Bills CBE

Accounting Officer
9 January 2003

Statement of Forestry Commissioners' and Accounting Officer's Responsibilities

- 1 Under section 5(2) of the Government Resources and Accounts Act 2000, the Forestry Commission is required to prepare resource accounts for each financial year, in conformity with a Treasury direction, detailing the resources acquired, held or disposed of during the year and the use of resources by the department during the year.
- 2 The resource 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.
- 3 HM Treasury has appointed the Permanent Head of Department as principal Accounting Officer of the department with overall responsibility for preparing the department's accounts and for transmitting them to the Comptroller and Auditor General.
- 4 In preparing the accounts the principal Accounting Officer is required to comply with the *Resource Accounting Manual* prepared by HM Treasury, and in particular to:
 - observe the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
 - make judgements and estimates on a reasonable basis;
 - state whether applicable accounting standards, as set out in the *Resource Accounting Manual*, have been followed, and disclose and explain any material departures in the accounts;
 - prepare the accounts on the going concern basis.
- 5 In addition the Director General of the Forestry Commission, as principal Accounting Officer, has designated the Chief Executives of Forest Research and Forest Enterprise as the Accounting Officers for the Agencies. The appointments do not detract from the Head of Department's overall responsibility as Accounting Officer for the department's accounts.
- 6 The responsibilities of the Director General, as principal Accounting Officer, including responsibility for the propriety and regularity of the public finances for which an Accounting Officer is answerable, for keeping proper records and for safeguarding the department's assets, are set out in the Accounting Officers' Memorandum, issued by the Treasury and published in *Government Accounting*. Under the terms of the Accounting Officers' Memorandum, the relationship between the department's principal Accounting Officer and the Chief Executives of Forest Research and Forest Enterprise, together with their respective responsibilities, is set out in writing.

Statement on Internal Control

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of departmental policies, aims and objectives, set by Ministers, whilst safeguarding the public funds and departmental assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Government Accounting. Control of certain activities is delegated to the Forestry Commission's agencies, Forest Enterprise and Forest Research, and in respect of those I place reliance on the Statements on Internal Control made by the Chief Executives.

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 the Forestry Commission's 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 the Commission's policies, aims and objectives. This identifies the risks, the adequacy of the controls and any corrective action required. This has been endorsed by the Forestry Commission Management Board. We have introduced the topic into a series of financial awareness seminars to be attended during the coming year by staff of all grades with financial responsibilities.

The Board of Commissioners, the Management Board and the Policy Board each meet monthly to consider the plans and strategic direction of the Commission. Boards receive regular reports from managers on key projects. The risk management policy ensures that the Management 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.

As Accounting Officer I receive periodic reports from the chairman of the Departmental Audit Committee concerning internal control. The Forestry Commission also has an overarching Audit Committee which is chaired by the Chairman of the Board of Commissioners. Its remit includes advice to me on the effectiveness of risk management and control throughout the Commission and its Agencies. The work of the internal and external auditors is currently reported annually to the full Board of Commissioners; in future this will be expanded to cover the full business of the overarching Forestry Commission Audit Committee.

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

- implement the financial awareness seminars which introduce the concepts of risk management;
- maintain the departmental risk register and review the planned actions;
- arrange for reports from the Chief Executives of the agencies on internal control activities.

The Forestry Commission has an Internal Audit Unit, which operates to standards defined in the Government Internal Audit Manual. It submits regular reports which include the Head of Internal Audit's independent opinion on the adequacy and effectiveness of the Commission'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 Commission 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.

D J Bills CBE

Accounting Officer

9 January 2003

Certificate and Report of the Comptroller and Auditor General

The Certificate and Report of the Comptroller and Auditor General to the House of Commons.

I certify that I have audited the financial statements on pages 70 to 75 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 stocks and the accounting policies set out on pages 76 to 79.

Respective responsibilities of the Accounting Officer and Auditor

As described on page 65, the Accounting Officer is 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 Accounting Officer is also responsible for the preparation of the other contents of the Accounts. 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 Annual Report is not consistent with the financial statements, if the Department 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 Accounts 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 66 reflects the Department's compliance with Treasury's guidance 'Corporate Governance: Statement on Internal Control'. I report if it does not meet the requirements specified by Treasury or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements.

Basis of Audit Opinions

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 Department in the preparation of the financial statements and of whether the accounting policies are appropriate to the Department's circumstances, consistently applied and adequately disclosed.

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

Opinion

In my opinion:

- the financial statements give a true and fair view of the state of affairs of the Forestry Commission in England and those functions which it carries out on a Great Britain-wide basis other than net superannuation costs at 31 March 2002 and of the net resource outturn, resources applied to objectives, 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
15 January 2003

National Audit Office
157-197 Buckingham Palace Road
Victoria
London SW1W 9SP

Schedule 1

Summary of Resource Outturn

for the year ended 31 March 2002

	2001-02 Estimate			2001-02 Outturn			2001-02	2000-01
	Gross Expend- iture	A in A	Net Total	Gross Expend- iture	A in A	Net Total	Net total compared with Estimate saving/ (excess)	Prior year outturn -Net
	£000	£000	£000	£000	£000	£000	£000	£000
Total resources	99,342	–	99,342	82,718	–	82,718	16,624	77,689
Net cash requirement	57,885	–	57,885			53,612	4,273	52,641

Reconciliation of resources

to cash requirement	Note	£000	£000	£000	£000	£000	£000	£000
Net total resources				99,342		82,718	16,624	77,689
Capital:								
Purchase of fixed assets	6			540		943	(403)	967
Investments				–		–	–	–
Non-operating cost A in A:				–		–	–	–
Accruals adjustments:								
Non-cash items	3/4			(1,660)		(1,514)	(146)	(1,686)
Changes in working capital other than cash	8			–		2,239	(2,239)	739
Changes in creditors falling due after more than one year				–		–	–	–
Use of provision				–		680	(680)	533
Non-cash inter-country transfers	14			–		(1,232)	1,232	114
Other adjustments:								
Adjustment of FE net deficit to financing	4			(40,337)		(30,222)	(10,115)	(25,715)
Net cash requirement				57,885		53,612	4,273	52,641

Actual amount net resources outturn £82,717,643.47. Actual amount of savings in resources over Estimate £16,624,356.53.

Net cash requirement: Outturn net requirement £53,610,308.97 which is £4,274,691.03 less than Estimate.

Explanation of the Variance between Estimate and Outturn (Net Total Resources):

The favourable variance was due to reduced capital charges because of the lower valuation of the forest estate compared to estimate and deferred expenditure on community forest projects funded from the Capital Modernisation Fund.

Explanation of the Variance between Estimated Net Cash Requirement and Outturn

Net Cash Requirement:

The favourable variance was mainly due to deferred expenditure on community forest projects funded by the Capital Modernisation Fund.

Explanation of the Variance between the Prior Year Outturn and Prior Year Cash Flow Statement (Schedule 4):

No explanation required.

Analysis of Income payable to the Consolidated Fund

	2001-02 Income £000	2001-02 Receipts £000	2000-01 Income £000	2000-01 Receipts £000
Income for fees not classified as A in A	–	–	–	–
Income from the sale of assets not classified as A in A	–	–	–	–
Total	–	–	–	–

The Notes on pages 76 to 98 form part of these accounts.

Schedule 2

Operating Cost Statement

for the year ended 31 March 2002

	Note	£000	2001-02 £000	£000	2000-01 £000
Administration costs:					
Staff costs	2	19,848		18,591	
Other administration costs	3	19,584		17,411	
Gross administration costs			39,432		36,002
Operating income	3	(13,514)		(11,943)	
Administration income			(13,514)		(11,943)
Net administration costs			25,918		24,059
Programme costs:					
Request for Resources 1					
Expenditure	4	66,042		61,555	
Less income	4	(9,242)		(7,925)	
Net programme costs			56,800		53,630
Net operating cost	5		82,718		77,689
Net resource outturn	5		82,718		77,689

Statement of Recognised Gains and Losses

for the year ended 31 March 2002

		£000	2001-02 £000	£000	RESTATED 2000-01 £000
Revaluation surplus					
for the year	15		1,483		30
In year movement in FE revaluation	15		(2,194)		81,459
Total recognised gains and losses for the year			(711)		81,489

There have been no discontinued operations during the year.

The Notes on pages 76 to 98 form part of these accounts.

Schedule 3

Consolidated Balance Sheet as at 31 March 2002

	Note	£000	2001-02 £000	£000	2000-01 £000
Fixed assets:					
Tangible fixed assets	6	12,052		10,484	
Investments	7	487,547		490,912	
Total			499,599		501,396
Current assets:					
Stocks	9	880		351	
Debtors	10	6,743		3,436	
Cash at bank and in hand	11	5,738		291	
Total		13,361		4,078	
Creditors (amounts falling due within 12 months)	12	(8,828)		(2,859)	
Net current assets			4,533		1,219
Total assets less current liabilities			504,132		502,615
Provisions for liabilities and charges	13		(1,728)		(2,408)
			502,404		500,207
Taxpayers' equity					
General fund	14		353,135		350,227
Revaluation reserve	15		149,269		149,980
			502,404		500,207

The Notes on pages 76 to 98 form part of these accounts.

D J Bills CBE

Accounting Officer
9 January 2003

Schedule 4

Cash Flow Statement

for the year ended 31 March 2002

	Note	2001-02 £000	2000-01 £000
Net cash outflow from operating activities		(39,662)	(38,491)
Payments to Forest Enterprise		(13,007)	(13,183)
Capital expenditure and financial investment	6	(943)	(967)
Financing		59,059	53,634
Increase in cash in the period	11	5,447	993

Reconciliation of operating cost to operating cash flows

Net operating cost		(82,718)	(77,689)
Adjustment for non-cash transactions	3/4	44,743	40,584
Non-cash inter-country transfers	14	1,232	(114)
Adjustments for movements in working capital other than cash	8	(2,239)	(739)
Adjustment for transfer from provision		(680)	(533)
Net cash flow from operating activities		(39,662)	(38,491)

Analysis of capital expenditure and financial investment

Purchase of fixed assets	6	(943)	(967)
Proceeds of disposal of fixed assets		–	–
Loans to other bodies		–	–
Net cash outflow from investing activities		(943)	(967)

Analysis of financing and reconciliation to the net cash requirement

Net financing requirement		59,059	53,634
Increase in cash	11	(5,447)	(993)
Net cash requirement		53,612	52,641

Amount of grant actually issued to support the net financing requirement = £59,057,788.85

The Notes on pages 76 to 98 form part of these accounts.

Schedule 5

Resources by Departmental Aim and Objectives for the year ended 31 March 2002

Note	Gross expenditure £000	2001-02		Gross expenditure £000	RESTATED 2000-01	
		Income £000	Net expenditure £000		Income £000	Net expenditure £000
England Objectives						
Increase the contribution of forests and woodlands to local economies and rural development	48,554	(9,926)	38,628	45,089	(8,656)	36,433
Expand the role of woodlands in supporting the economic regeneration of former industrial land and disadvantaged communities	3,828	(1,918)	1,910	3,561	(1,673)	1,888
Promote public access to woods and forests and develop diverse recreational opportunities	14,254	(2,489)	11,765	12,603	(2,171)	10,432
Conserve and improve the biodiversity, landscape and cultural heritage of our forests and woodlands	20,103	(7,467)	12,636	18,124	(6,513)	11,611
England net operating costs	86,739	(21,800)	64,939	79,377	(19,013)	60,364
Great Britain Objectives						
To take the lead in development and promotion of sustainable forest management and to support its achievement nationally	18,735	(956)	17,779	18,180	(855)	17,325
Great Britain net operating costs	18,735	(956)	17,779	18,180	(855)	17,325
England/Great Britain net operating costs	105,474	(22,756)	82,718	97,557	(19,868)	77,689

See Note 16

The objectives used in Schedule 5 for 2001-02 were changed to reflect those published in the three country Forestry Strategies as well as the overall objective of the Forestry Commission for its Great Britain activities.

The 2000-01 figures are restated on the same basis.

The Notes on pages 76 to 98 form part of these accounts.

Notes to the Resource Accounts

1 Statement of Accounting Policies

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 in accordance with the 2001-02 Resource Accounting Manual (RAM) issued by HM Treasury. The accounting policies contained in the RAM follow UK generally accepted accounting practice for companies (UK GAAP) to the extent that it is meaningful and appropriate to the public sector. The particular accounting policies adopted by the Forestry Commission are described below. The department's accounting policies have been applied consistently in dealing with items considered material in relation to the accounts.

A Accounting Convention

These accounts have been prepared under the historical cost convention modified to account for the revaluation of fixed assets and stocks where material, at their value to the business by reference to their current costs.

B Basis of Consolidation

These accounts reflect the assets, liabilities and results of the core-department (the Forestry Commission) in England and Forest Research together with international matters and topics, which though devolved, are agreed to be best delivered for Great Britain as a whole. Forest Enterprise (FE), an executive agency, is a public corporation for national accounting and as such is outside the boundary for resource accounting purposes. The FE in England accounts are published separately in the Forestry Commission annual report and accounts for England/Great Britain with the net funding and net worth of FE in England reflected in these accounts.

C Tangible Fixed Assets

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 the Forestry Commissioners. Where FE is the principal beneficial user of the assets of the Forestry Commission estate they are treated as a fixed asset of the agency. Freehold land and buildings have been restated at open market value using a professional revaluation every three years and appropriate indices in intervening years. Professionally qualified staff employed by the Forestry Commission carry out the revaluation.

Legal ownership of other tangible fixed assets, primarily office equipment, is vested in the Forestry Commissioners. Office equipment values are updated annually using a general price index.

The normal threshold for the capitalisation of assets is £1,500. Items of office machinery and furniture, if treated singly, would fall below the capitalisation threshold but collectively they represent a significant asset and accordingly, are capitalised as a pooled asset.

D Depreciation

Freehold land is not depreciated.

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

Buildings	– 20 to 60 years
Research and office equipment	– 4 to 20 years

Impairments of fixed assets are charged to the operating cost statement in the period in which they occur.

E Intangible Assets

There are no intangible assets in the accounts. Purchased software, including software licences, and computer systems development costs are charged to the operating statement in the period in which they have occurred.

F Investments

Forest Enterprise in England is treated as an investment and is shown in the balance sheet at the value of the net assets of the agency as at 31 March 2002.

G Stocks

Stocks and work in progress are valued as follows:

- a finished goods and goods for resale are valued at cost or, where materially different, current replacement cost, and at net realisable value only when they either cannot or will not be used;
- b work in progress is valued at the lower of cost, including appropriate overheads, and net realisable value;
- c consumable materials and supplies are valued at current replacement cost.

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

H 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.

I Research and Development

As one of its Great Britain functions, the department commissions research from its Forest Research agency and through external contracts awarded by a variety of means including open tender. The Forestry Commission's research strategy, which is the subject of consultation with other government departments and external stakeholders, is published on the Forestry Commission website. All research and development expenditure is charged to the operating cost statement in the year.

Notes to the Resource Accounts (continued)

J Administrative and Programme Expenditure

The operating cost statement is analysed between administration and programme costs.

Administration costs reflect the costs of running the Forestry Commission in England/Great Britain, together with associated operating income. Programme costs include payments of grants and the net funding of FE in England.

K European Union (EU) Funding

The Forestry Commission acts as an agent of the EU for third party grants paid from Objective 1 and 5b and Woodland Grant Scheme payments made under the national European Agricultural Guarantee and Guidance Fund. The Forestry Commission undertakes to pay planting grants in three instalments whilst grants for the management of existing woodlands are payable annually in arrears during the five-year currency of an approved plan. Grants become payable (and are recognised as a liability in the balance sheet), and contributions from the EU are claimed, once any necessary physical inspection has been undertaken to verify that the scheme conditions have been met. If grants are subsequently recovered because of failure to fulfil the conditions of the Woodland Grant Scheme, the amount of co-financing may be repayable to the EU. EU costs and grants paid are included in programme expenditure and off-setting EU funding/co-financing is included in programme income.

L Cost of Capital Charges

Charges, reflecting the cost of capital utilised by the core department in England, Forest Research and Forest Enterprise in England, have been included under Administration or Programme costs (as appropriate) in the Operating Cost Statement. The charge is calculated at the Government's standard rate of 6 per cent in real terms on total assets less liabilities.

M Value Added Tax (VAT)

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

N Insurance

In accordance with normal government accounting practice, the Forestry Commission carries its own insurance risks.

O Pensions

Until 30 November 2001, the Forestry Commission ran a pension scheme for its staff by analogy with the Principal Civil Service Pension Scheme (PCSPS). The final separate Pension Scheme accounts are published in the Forestry Commission in England/Great Britain annual report as it is a reserved Great Britain matter. In accordance with Treasury Accounts directions, the liabilities of the pension scheme are shown in the pension scheme statement, whilst employers' and employees' contributions are included in the accounts of the Forestry Commission and its agencies under staff costs.

From 1 December 2001 the Forestry Commission Pension Scheme was subsumed into the PCSPS. Present and past employees are covered by the provisions of the PCSPS, which is non-contributory and unfunded apart from contributions for widows'/widowers' benefits. Although the Scheme is a defined benefit scheme, liability for payment of future benefits is a charge to the PCSPS. Government bodies covered by the PCSPS meet the cost of pension cover provided for the staff they employ by payment of charges calculated on an accruing basis. There is a separate scheme statement for the PCSPS as a whole.

Principal Civil Service Pension Scheme 2000 (PCSPS 2000) is a new scheme which is scheduled to be introduced in October 2002. On its introduction the current PCSPS will be closed to new members who will be required to join the new scheme. An options exercise commenced in January 2002 to provide current PCSPS staff with a statement that compares forecasted benefits under each scheme and they may elect to transfer their current benefits into the new scheme in October 2002.

P Compensation Scheme

The Forestry Commission is required to meet the additional cost of benefits beyond the normal pension scheme benefits in respect of employees who retire early. It provides in full for this cost when an obligation to pay such costs has been entered into. For staff leaving on or prior to 31 March 1999, the future liabilities for monthly 'compensation' payments are shown in the Forestry Commission accounts for England/Great Britain. For staff leaving on or after 1 April 1999, the payments are shown in the Forestry Commission or agency accounts for the country in which staff were serving at the time they took early retirement. The early retirement costs for 5 members of staff who left during 2000-01 were funded by the Modernising Government Fund with the objective of increasing the diversity of the workforce. These costs have been included in the operating cost statement and balance sheet in line with other early retirements.

Notes to the Resource Accounts (continued)

2 Staff Numbers and Costs

A Employees and Costs

The average number of whole time equivalent persons employed by the Forestry Commission and its agencies during the year was 3,007 (3,116 in 2000-01). The Forestry Commission in England employed an average of 145 (140 in 2000-01) with a further 274 staff (264 in 2000-01) employed on a Great Britain basis to provide support to Forestry Commission activities in all three countries and to its agencies.

The aggregate payroll costs were as follows:

	2001-02 £000	2000-01 £000
Forestry Commission England/Great Britain (excluding Great Britain staff costs)		
Wages and salaries	3,529	3,318
Social security costs	251	243
Employer's superannuation costs	535	535
Sub-total	4,315	4,096

	2001-02 £000	2000-01 £000
Forestry Commission England/Great Britain (including Great Britain staff costs)		
Wages and salaries	10,228	9,257
Social security costs	749	679
Employer's superannuation costs	1,554	1,478
Sub-total	12,531	11,414

All of the Great Britain costs for 2001-02 were allocated to the Forestry Commission in England/Great Britain accounts. In the previous year a small proportion was allocated to the Forestry Commission in Wales (2%) and the Forestry Commission in Scotland (5%).

The average number of whole time equivalent persons employed by Forest Research was 280 (277 in 2000-01) and the aggregate payroll costs were as follows:

	2001-02 £000	2000-01 £000
Forest Research		
Wages and salaries	5,999	5,820
Social security costs	424	431
Employer's superannuation costs	894	926
Sub-total	7,317	7,177
Grand total	19,848	18,591

Until 30 November 2001 staff were covered by the Forestry Commission Pension Scheme (FCPS) which was a defined benefit pension scheme. The employers' contribution rates to the FCPS were in the range 15 – 22%, according to grade, as determined by the Government Actuary. Actual payments were met by the Forestry Commission and reflected in the final FCPS accounts which can be found in

the Forestry Commission in England/Great Britain annual report. From 1 December 2001 the scheme was subsumed into the Principal Civil Service Pension Scheme (PCSPS). The 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. A full actuarial valuation was carried out at 31 March 1999. Details can be found in the resource accounts of the Cabinet Office; Civil Superannuation (www.civilservice-pensions.gov.uk). For 2001-02, employers' contributions of £756,000 were payable to the PCSPS (2000-01 nil) at one of the four rates in the range 12 to 18.5 per cent of pensionable pay, based on salary bands. Rates will remain the same for the next two years, subject to revalorisation of the salary bands. Employer contributions are to be reviewed every four years following a full scheme valuation by the Government Actuary. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

Benefits in kind are provided under the following schemes, subject to conditions and financial limits:

- (i) advances of salary for house purchase;
- (ii) advances of salary for purchase of season tickets and cycles;
- (iii) car provision scheme.

The advances of salary for house purchase scheme had 29 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 £224,349.

B Board of Commissioners

The Commissioners who served during the year are given in section 11 of the foreword.

(a) Salaries

The remuneration of the Commissioners is included in these accounts, excluding the Forest Enterprise chief executive whose remuneration is in the FE accounts. The total remuneration of the Commissioners, excluding pension contributions but including the FE chief executive, was:

	2001-02 £000	2000-01 £000
Chairman – Sir Peter Hutchison (to 30 November 2001)	31	43
Chairman – Lord David Clark (from 10 December 2001)	9	–
Highest paid Commissioner	116	112
Other Commissioners	210	207
Total emoluments of Commissioners	366	362
Travel and subsistence of Commissioners	47	47

The Director General received total remuneration of £115,525 in 2001-02 (£111,737 in 2000-01) including a bonus of £10,855 (£9,730 in 2000-01). The Director General is on a fixed term contract which expires in December 2003, with the option to renew for another four years. He is an ordinary member of the PCSPS.

Notes to the Resource Accounts (continued)

The emoluments of the other Commissioners fell within the following ranges:

	2001-02 No	2000-01 No
£0-4,999	–	2
£5,000-9,999	8	7
£30,000-34,999	1	–
£40,000-44,999	–	1
£70,000-74,999	–	1
£75,000-79,999	2	–
£80,000-84,999	–	1

Salaries include gross salaries, performance bonuses and benefits in kind.

(b) Pension Entitlements

The Chairman and non-executive Commissioners do not receive pension benefits from the Forestry Commission. Pay and pension information for the remaining Commissioners is:

	David Bills	Dr Bob McIntosh	Duncan Macniven
Age	54	50	51
Pay as at 31 March 2002	108,550	77,802	76,105
Pension increase net of inflation	1,463	1,775	1,824
Accrued pension at 31 March 2002	7,674	25,690	27,174

Pension benefits for the above Commissioners are consistent with other Forestry Commission employees and 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 per cent of pensionable earnings for the provision of widows' and children's benefits. Pensions increase in payment 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.

3 Other Administrative Costs

	2001-02 £000	2000-01 £000
Forestry Commission		
Travel and subsistence	1,231	1,028
Other expenditure	15,915	13,786
Other income	(13,514)	(11,943)
Sub-total	3,632	2,871
Non-cash costs		
Cost of capital	(11)	(28)
Notional audit fees	45	44
Depreciation	505	588
Write off of revaluation reserve	4	109
(Gains)/Losses on disposal of assets	10	58
Sub-total	553	771
Total	4,185	3,642

Non-cash costs included notional auditor's remuneration of £45,320 (£44,420 for 2000-01).

	2001-02 £000	2000-01 £000
Forest Research		
Travel and subsistence	464	399
Other expenses	1,016	1,031
Sub-total	1,480	1,430
Non-cash costs: Depreciation	405	396
Total	1,885	1,826

Other expenses included auditor's remuneration of £22,000. (£19,000 for 2000-01).

Grand total	6,070	5,468
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4 Programme Expenditure and Income

	2001-02 £000	2000-01 £000
Forestry Commission		
Grants paid to private woodland owners	18,798	18,161
Publications and other expenditure	818	1,675
Planting grant co-financing from EU	(6,162)	(5,275)
Sundry income	(764)	(425)
Sub-total	12,690	14,136
Forest Enterprise funding	43,229	38,898
Total FC programme expenditure and income	55,919	53,034

Notes to the Resource Accounts (continued)

	2001-02 £000	2000-01 £000
Forest Research		
Material and services	2,640	2,302
Forest Research non-Commission customers	(1,258)	(1,116)
Forest Research income from Forest Enterprise	(1,057)	(1,109)
	325	77
Non-cash costs		
Cost of capital	556	519
Total FR programme expenditure and income	881	596
Grand total programme expenditure and income	56,800	53,630

Forest Enterprise in England incurred a deficit on its income and expenditure account of £43,229,000 (£38,898,000 in 2000-01). It received cash funding of £13,007,000 (£13,183,000 in 2000-01) from the Forestry Commission and the difference is shown under other adjustments in Schedule 1.

	2001-02 £000	2000-01 £000
Capital		
Net capital	(1,784)	(4,634)
Accruals adjustments		
Cost of capital	29,354	29,017
Non-cash items	55	2,330
Changes in working capital, including cash	2,431	(1,043)
Changes in working capital falling due after more than one year	–	–
Use of provision	166	45
Adjustment of FE deficit to financing	30,222	25,715

5 Reconciliation of Net Operating Cost to Control Total and Net Resource Outturn

	2001-02 £000	2000-01 £000
Net operating deficit for the year	82,718	77,689
Remove non-supply expenditure	–	–
Add non-supply income including CFERs	–	–
Add net deficit on revaluations	–	–
Net resource outturn	82,718	77,689

6 Tangible Fixed Assets

	Land and Buildings	Machinery, Plant and Equipment	Total
	£000	£000	£000
Valuation:			
At 1 April 2001	8,361	9,802	18,163
Additions	12	931	943
Disposals/transfers	9	170	179
Revaluation to current prices	1,321	13	1,334
At 31 March 2002	9,703	10,916	20,619
Depreciation:			
At 1 April 2001	323	7,356	7,679
Provided during year	161	749	910
Disposals/transfers	(1)	124	123
Revaluation to current prices	(152)	7	(145)
At 31 March 2002	331	8,236	8,567
Net Book Value at:			
31 March 2002	9,372	2,680	12,052
1 April 2001	8,038	2,446	10,484

Note 1 Accounting Policies sets out the basis on which fixed assets are revalued.

Land and buildings were subject to a triennial revaluation as at 31 March 2002 by professionally qualified land agents employed by the Forestry Commission. Land and buildings assets comprise both freehold and leasehold assets.

The machinery, plant and equipment assets were revalued as at 31 March 2002 using National Statistics 'Price Index Numbers For Current Cost Accounting'.

7 Investments

Forest Enterprise in England is a public corporation for national accounting and as such is outside the departmental boundary for resource accounting. Its net book value of £487,547,000 (£490,912,000 for 2000-01) is shown as an investment in the balance sheet of the Forestry Commission in England/Great Britain.

Notes to the Resource Accounts (continued)

8 Movements in Working Capital other than Cash

	2001-02 £000	2000-01 £000
Decrease/(increase) in stocks	(529)	60
Decrease/(increase) in debtors	(3,307)	(159)
(Decrease)/increase in creditors: amounts falling due within one year	1,597	(640)
Total	(2,239)	(739)

9 Stocks and Work in Progress

	2001-02 £000	2000-01 £000
Stocks	621	321
Raw materials and work in progress	259	30
Total	880	351

10 Debtors

	2001-02 £000	2000-01 £000
Trade debtors	4,540	3,104
Other debtors	2,201	278
Pre-payments	2	54
Total	6,743	3,436

11 Cash at Bank and in Hand

	2001-02 £000	2000-01 £000
Balance with Office of Paymaster General	5,712	207
Cash at commercial banks and cash in hand	26	84
Total	5,738	291

Amounts issued from UK Government Consolidated

Fund for supply but not spent at year end	4,372	–
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Amounts issued from the Scottish Executive for

supply but not spent at year end	1,295	–
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Amounts issued from the Welsh Assembly for

supply but not spent at year end	71	–
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The Office of the Paymaster General provides a current account banking service. All cash balances except petty cash are included in the Forestry Commission England/Great Britain accounts.

There is a difference between the net cash requirement saving on Schedule 1 and the amounts issued from the UK Government Consolidated Fund for supply but not spent at year-end. This is due to the net cash requirement saving on the Forestry Commission Pension Scheme being accounted for as a creditor in the Forestry Commission in England/Great Britain accounts, the remainder being surplus cash from previous years.

12 Creditors

Amounts falling due within one year:

	2001-02 £000	2000-01 £000
Payments received on account	280	48
Trade creditors	3,058	654
Provision for compensation payments	1,057	1,279
Other creditors including taxation and social security costs	61	878
Amounts issued from the Consolidated Fund for supply but not spent at year end	4,372	–
Total	8,828	2,859

Following approval of a management plan for planting proposals, the Forestry Commission undertakes to pay planting grants in three instalments. At 31 March 2002, the Forestry Commission was committed under signed plans to the payment of future instalments of planting and replanting grants amounting to £19.2 million (£26.6 million in 2000-01). 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 £23.1 million at 31 March 2002 (£19.8 million in 2000-01). Applications for planting and replanting grants, awaiting approval at 31 March 2002, amounted to £0.4 million (£nil in 2000-01). These amounts are not included above.

13 Provision for Liabilities and Charges (Early Retirement Compensation Payments)

	2001-02 £000	2000-01 £000
Compensation payments:		
Balance at 1 April 2001	3,687	4,311
Utilised in year	(1,393)	(1,390)
Increase in provision	491	766
Balance at 31 March 2002	2,785	3,687
Amounts falling due within one year	1,057	1,279
Amounts falling due after more than one year	1,728	2,408

The provision for liabilities and charges relates solely to early retirement compensation payments of £1,728,000 (£2,408,000 for 2000-01) falling due after more than one year. The Forestry Commission is required to meet the additional cost of benefits beyond the normal pension scheme benefits in respect of employees who retire early. It provides in full for this cost when an obligation to pay such costs has been entered into and subsequent annual payments to individuals are set against the provision.

Notes to the Resource Accounts (continued)

14 Reconciliation of Net Operating Cost to changes in General Fund

	2001-02 £000	RESTATED 2000-01 £000
Net operating cost for the year (Schedule 2)	(82,718)	(77,689)
Net Parliamentary funding	57,885	53,634
Net excess working balance 1999-2000 and 2000-01	(415)	–
	(25,248)	(24,055)
Adjustment for consolidated FE totals (Note 4)	30,222	25,715
	4,974	1,660
Notional cost of capital – FC	(11)	(28)
Notional cost of capital – FR	556	519
Transfer of fixed assets from/to other forestry bodies	64	–
Internal transfers	–	107
Non-cash inter-country transfers	1,232	(114)
Notional audit fees	45	44
Adjustment for FR bank balance in general fund at 31 March 2001	182	–
Amounts issued from the Consolidated Fund for supply but not spent at year end re FC Pension Scheme	42	–
Amounts issued from the Consolidated Fund for supply but not spent at year end	(4,372)	–
Cash transferred from FC in Scotland and Wales	1,366	–
	4,078	2,188
In year movement in FE general fund	(1,170)	(66,865)
	(2,908)	(64,677)
Adjustment between general fund and revaluation reserve	–	(65,902)
Net increase/(decrease) in general fund	(2,908)	(130,579)
General fund as at 31 March 2001	350,227	480,806
General fund as at 31 March 2002 (Schedule 3)	353,135	350,227

Non-cash inter-country transfers include transfers of provisions, VAT to the Forestry Commission in England/Great Britain and workers clothing. The net total of the transactions for 2001-02 is £1,232,000.

The 2000-01 published accounts treated the combined movement of FE's capital and reserves as an adjustment to the Forestry Commission's general fund. From 2001-02 onwards, the movement in FE's revaluation reserve is reflected in the Forestry Commission's revaluation reserve and the 2000-01 accounts are restated on the same basis. The in year movement of FE's capital and reserves in 2000-01 also included an adjustment for the internal transfer of assets between England/Great Britain and Scotland and Wales.

15 Revaluation Reserve

	2001-02 £000	RESTATED 2000-01 £000
Balance at 1 April 2001	149,980	2,589
Adjustment between general fund and revaluation reserve	–	65,902
	149,980	68,491
FC revaluation surplus/(deficit) for the year	1,483	30
In year movement in FE revaluation reserve	(2,194)	81,459
Balance at 31 March 2002	149,269	149,980

The 2000-01 published accounts treated the combined movement of FE's capital and reserves as an adjustment to the Forestry Commission's general fund. From 2001-02 onwards, the movement in FE's revaluation reserve is reflected in the Forestry Commission's revaluation reserve and the 2000-01 accounts are restated on the same basis. The in year movement of FE's capital and reserves in 2000-01 also included an adjustment for the internal transfer of assets between England/Great Britain and Scotland and Wales.

16 Schedule 5

Expenditure in Schedule 5 comprises the direct costs incurred by the Forestry Commission in England's national office and payments made for centrally provided services. An analysis was undertaken to determine the costs attributable to each of the objectives for the core department. In a multi-benefit forestry strategy where many activities will contribute to more than one objective, the allocation of costs has been undertaken by senior staff in each area based on an informed judgement of each activity. Forest Enterprise has been included in Schedule 5 to the extent of the net cost to the Forestry Commission (operating deficit plus cost of capital). Costs are identified in the Forest Enterprise by activity and these activities have been allocated to objectives.

Staff numbers have been apportioned pro rata to the net expenditure on each objective giving:

England	2001-02	2000-01
Increase the contribution of forests and woodlands to local economies and rural development	86	84
Expand the role of woodlands in supporting the economic regeneration of former industrial land and disadvantaged communities	4	4
Promote public access to woods and forests and develop diverse recreational opportunities	27	25
Conserve and improve the biodiversity, landscape and cultural heritage of our forests and woodlands	28	27
Total	145	140

Notes to the Resource Accounts (continued)

Great Britain

To take the lead in development and promotion of sustainable forest management and to support its achievement nationally

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17 Operating Leases

Operating lease rentals are charged on a straight-line basis over the term of the lease. Commitments on operating leases for the next year are as follows:

	2001-02 £000	2000-01 £000
Building leases expiring within:		
One year	7	–
Two to five years	58	23
More than five years	1,600	915
Total	1,665	938

18 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 (£nil as at 31 March 2001).

19 Related Party Transactions

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

In addition, the Forestry Commission 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 H M Treasury, Welsh Assembly, Scottish Executive, UK Co-ordinating Body, the Paymaster General's Office, Customs and Excise, the Inland Revenue, and the Department for the Environment, Food and Rural Affairs (and its predecessors prior to June 2001, the Ministry of Agriculture, Fisheries and Food and the Department for Environment, Transport and the Regions).

In the year to 31 March 2002, Forest Enterprise entered into the following material transaction involving non-executive Commissioners:

Mr Tom Bruce Jones is a director of James Jones & Sons Ltd which purchased approximately 387,000 cubic metres of timber at £6,846,000 from Forest Enterprise.

20 Financial Instruments

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

Liquidity risk

The Forestry Commission in England/Great Britain's net revenue resource requirements are financed by resources voted annually by the UK Parliament, just as its capital expenditure is. The Forestry Commission in England/Great Britain is not therefore exposed to significant liquidity risks.

Interest-rate risk

The Forestry Commission in England/Great Britain is not exposed to interest-rate risk.

Foreign currency risk

The Forestry Commission in England/Great Britain is not exposed to foreign currency risk.

Fair Values

There is no difference between book value and fair value for the cash at bank shown in Note 11. Fair value for the provisions shown in Note 13 is not significantly different from book value since, in the calculation of book value, the expected cash flows have been discounted by the Treasury rate of 6% in real terms.

21 Losses Statement

Losses totalled £336,000 from 99 cases (£112,000 from 91 cases in 2000-01) including the write-off of two claims abandoned amounting to £113,000 and £112,000. A further £115,000 was paid in 44 special payments (£174,000 paid in 54 special payments in 2000-01).

22 Entities within the Departmental Boundary

The entities within the boundary of the Forestry Commission resource accounts during 2001-02 were as follows:

Forest Research agency – although forestry is a devolved subject, the agency continues to be funded from the UK Government and is consolidated into the Forestry Commission in England/Great Britain accounts. It also publishes its own annual report and accounts.

Schedule 3

Balance Sheet

as at 31 March 2002

	Note	£000	2001-02 £000	£000	2000-01 £000
Fixed assets:					
Tangible fixed assets	2	2,284		2,091	
Investments	3	487,547		490,912	
Total			489,831		493,003
Current assets:					
Stocks	4	621		320	
Debtors	5	6,272		2,831	
Cash at bank and in hand	6	5,737		290	
Total		12,630		3,441	
Creditors (amounts falling due within 12 months)	7	(8,086)		(2,597)	
Net current assets			4,544		844
Total assets less current liabilities			494,375		493,847
Provisions for liabilities and charges	8		(1,728)		(2,408)
			492,647		491,439
Taxpayers' equity					
General fund	9		347,266		344,067
Revaluation reserve	10		145,381		147,372
			492,647		491,439

The Notes on pages 93 to 98 form part of these accounts.

D J Bills CBE

Accounting Officer

9 January 2003

Notes to the Resource Accounts

1 Statement of Accounting Policies

Where appropriate, the accounting policies outlined above for the consolidated accounts have been adopted for the core-department only accounts.

2 Fixed Assets

	Land and Buildings	Machinery, Plant and Equipment	Total
	£000	£000	£000
Tangible Fixed Assets			
Valuation:			
At 1 April 2001	918	5,270	6,188
Additions	–	430	430
Disposals/transfers	25	170	195
Revaluation to current prices	110	13	123
At 31 March 2002	1,053	5,883	6,936
Depreciation:			
At 1 April 2001	54	4,043	4,097
Provided during year	27	478	505
Disposals/transfers	2	124	126
Revaluation to current prices	(83)	7	(76)
At 31 March 2002	–	4,652	4,652
Net Book Value at:			
31 March 2002	1,053	1,231	2,284
1 April 2001	864	1,227	2,091

Note 1 Accounting Policies sets out the basis on which fixed assets are revalued.

Land and buildings were subject to a triennial revaluation as at 31 March 2002 by professionally qualified land agents employed by the Forestry Commission. Land and buildings assets comprise both freehold and leasehold assets.

The machinery, plant and equipment assets were revalued as at 31 March 2002 using National Statistics 'Price Index Numbers For Current Cost Accounting'.

3 Investments

Forest Enterprise in England is a public corporation for national accounting and as such is outside the departmental boundary for resource accounting. Its net book value of £487,547,000 (£490,912,000 for 2000-01) is shown as an investment in the balance sheet of the Forestry Commission in England/Great Britain.

Notes to the Resource Accounts (continued)

4 Stocks and Work in Progress

	2001-02 £000	2000-01 £000
Stocks (publications)	621	320

There was no work in progress as at 31 March 2002.

5 Debtors

	2001-02 £000	2000-01 £000
Trade debtors	4,172	733
Other debtors	2,100	2,098
Total	6,272	2,831

6 Cash at Bank and in Hand

	2001-02 £000	2000-01 £000
Balance with Office of Paymaster General	5,711	207
Cash at commercial banks and cash in hand	26	83
Total	5,737	290

Amounts issued from UK Government Consolidated

Fund for supply but not spent at year end	4,371	–
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Amounts issued from the Scottish Executive for

supply but not spent at year end	1,295	–
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Amounts issued from the Welsh Assembly for

supply but not spent at year end	71	–
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The Office of the Paymaster General provides a current account banking service. All cash balances except petty cash are included in the Forestry Commission England/Great Britain accounts.

There is a difference between the net cash requirement saving on Schedule 1 and the amounts issued from the UK Government Consolidated Fund for supply but not spent at year-end. This is due to the net cash requirement saving on the Forestry Commission Pension Scheme being accounted for as a creditor in the Forestry Commission in England/Great Britain accounts, the remainder being surplus cash from previous years.

7 Creditors

Amounts falling due within one year:

	2001-02 £000	2000-01 £000
Trade creditors	2,604	443
Provision for compensation payments	1,057	1,279
Other creditors (including taxation and social security costs)	53	875
Amounts issued from the Consolidated Fund for supply but not spent at year end	4,372	–
Total	8,086	2,597

Following approval of a management plan for planting proposals, the Forestry Commission undertakes to pay planting grants in three instalments. At 31 March 2002, the Forestry Commission was committed under signed plans to the payment of future instalments of planting and replanting grants amounting to £19.2 million (£26.6 million in 2000-01). 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 £23.1 million at 31 March 2002 (£19.8 million in 2000-01). Applications for planting and replanting grants, awaiting approval at 31 March 2002, amounted to £0.4 million (£nil in 2000-01). These amounts are not included above.

8 Provision for Liabilities and Charges (Early Retirement Compensation Payments)

	2001-02 £000	2000-01 £000
Compensation payments:		
Balance at 1 April 2001	3,687	4,311
Utilised in year	(1,393)	(1,390)
Increase in provision	491	766
Balance at 31 March 2002	2,785	3,687
Amounts falling due within one year	1,057	1,279
Amounts falling due after more than one year	1,728	2,408

The provision for liabilities and charges relates solely to early retirement compensation payments of £1,728,000 (£2,408,000 for 2000-01) falling due after more than one year. The Forestry Commission is required to meet the additional cost of benefits beyond the normal pension scheme benefits in respect of employees who retire early. It provides in full for this cost when an obligation to pay such costs has been entered into and subsequent annual payments to individuals are set against the provision.

Notes to the Resource Accounts (continued)

9 Reconciliation of Net Operating Cost to changes in General Fund

	2001-02 £000	2000-01 £000
Net operating cost for the year	(82,731)	(77,750)
Net Parliamentary funding	58,741	53,996
Net excess working balance 1999-2000 and 2000-01	(415)	–
	(24,405)	(23,754)
Adjustment for consolidated FE totals (Note 4)	30,222	25,715
	5,817	1,961
Notional cost of capital – FC	(11)	(28)
Transfer of fixed assets from/to other forestry bodies	77	–
Internal transfers	–	105
Non-cash inter-country transfers	1,223	(114)
Notional audit fees	45	44
Adjustment for FR bank balance in general fund at 31 March 2001	182	–
Amounts issued from the Consolidated Fund for supply but not spent at year end re FC Pension Scheme	42	–
Amounts issued from the Consolidated Fund for supply but not spent at year end	(4,372)	–
Cash transferred from FC in Scotland and Wales	1,366	–
	4,369	1,968
In year movement in FE general fund	(1,170)	(66,865)
	3,199	(64,897)
Adjustment between general fund and revaluation reserve	–	(65,902)
Net increase/(decrease) in general fund	3,199	(130,799)
General fund as at 31 March 2001	344,067	474,866
General fund as at 31 March 2002 (Schedule 3)	347,266	344,067

Non-cash inter-country transfers include transfers of provisions, VAT to the Forestry Commission in England/Great Britain and workers clothing. The net total of the transactions for 2001-02 is £1,223,000.

The 2000-01 published accounts treated the combined movement of FE's capital and reserves as an adjustment to the Forestry Commission's general fund. From 2001-02 onwards, the movement in FE's revaluation reserve is reflected in the Forestry Commission's revaluation reserve and the 2000-01 accounts are restated on the same basis. The in year movement of FE's capital and reserves in 2000-01 also included an adjustment for the internal transfer of assets between England/Great Britain and Scotland and Wales.

10 Revaluation Reserve

	2001-02 £000	2000-01 £000
Balance at 1 April 2001	147,372	–
Adjustment between general fund and revaluation reserve	–	65,902
	147,372	65,902
FC revaluation surplus/(deficit) for the year	203	11
In year movement in FE revaluation reserve	(2,194)	81,459
Balance at 31 March 2002	145,381	147,372

The 2000-01 published accounts treated the combined movement of FE's capital and reserves as an adjustment to the Forestry Commission's general fund. From 2001-02 onwards, the movement in FE's revaluation reserve is reflected in the Forestry Commission's revaluation reserve and the 2000-01 accounts are restated on the same basis. The in year movement of FE's capital and reserves in 2000-01 also included an adjustment for the internal transfer of assets between England/Great Britain and Scotland and Wales.

11 Operating Leases

Operating lease rentals are charged on a straight-line basis over the term of the lease. Commitments on operating leases for the next year are as follows:

	2001-02 £000	2000-01 £000
Building leases expiring within:		
One year	7	–
Two to five years	58	23
More than five years	1,600	915
Total	1,665	938

12 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 (£nil as at 31 March 2001).

Notes to the Resource Accounts (continued)

13 Financial Instruments

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

Liquidity risk

The Forestry Commission in England/Great Britain's net revenue resource requirements are financed by resources voted annually by the UK Parliament, just as its capital expenditure is. The Forestry Commission in England/Great Britain is not therefore exposed to significant liquidity risks.

Interest-rate risk

The Forestry Commission in England/Great Britain is not exposed to interest-rate risk.

Foreign currency risk

The Forestry Commission in England/Great Britain is not exposed to foreign currency risk.

Fair Values

There is no difference between book value and fair value for the cash at bank shown in Note 6. Fair value for the provisions shown in Note 8 is not significantly different from book value since, in the calculation of book value, the expected cash flows have been discounted by the Treasury rate of 6% in real terms.

Accounts Direction given by the Treasury

Accounts Direction given by the Treasury in accordance with Section 5 (2) of the Government Resources and Accounts Act 2000

- 1 This direction applies to those government departments and pension schemes listed in the attached appendix.*
- 2 Those departments and pension schemes shall prepare resource 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 ("the Resource Accounting Manual") which is in force for that financial year.
- 3 The accounts for **government departments** shall be prepared so as to give a true and fair view of the state of affairs at 31 March 2002 and of the net resource outturn, resources applied to objectives, recognised gains and losses and cash flows for the financial year then ended. The accounts for **pension schemes** shall be prepared so as to give a true and fair view of the state of affairs at 31 March 2002 and of the net resource outturn, and cash flows for the financial year then ended.
- 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 with both 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.

David Loweth

Head of Central Accountancy Team, Her Majesty's Treasury

31 January 2002

*The Forestry Commission was one of the departments listed in the appendix which is referred to.

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Foreword

1 Cessation of the Pension Scheme

All members of the Forestry Commission Pension Scheme (serving staff and pensioners) transferred to the Principal Civil Service Pension Scheme as of 1st December 2001. The Forestry Commission Pension Scheme therefore effectively closed on 30th November 2001.

2 Status

The Forestry Commission is a cross border Government department responsible for forestry separately and distinctly in each country of Great Britain. Since devolution the Forestry Commission has reported separately to the three administrations. It consists of three elements:

The core-department (the Forestry Commission) – which is responsible for policy matters;

Forest Enterprise Agency – which manages the Forestry Commission's forests. It became an Executive Agency of the Forestry Commission with effect from 1 April 1996 but has been designated as a Public Corporation for National Accounting purposes.

Forest Research Agency – which undertakes the major part of the Forestry Commission's forest research programmes, as well as undertaking technical development and survey work. Forest Research became an Executive Agency of the Forestry Commission with effect from 1 April 1997. The relationship between Forest Research, the Forestry Commissioners and Forestry Ministers is described in its Framework Document which was published in February 1997.

The Pension Scheme was common to staff in all three countries (England, Scotland and Wales) and all parts of the organisation. The Pension Scheme was designated a reserved Great Britain matter because staff move between countries and parts of the organisation during their employment with the Commission.

In addition to the Pension Scheme Resource Accounts, separate Resource Accounts are produced for the core-department in each country and for Forest Research. Forest Enterprise produces separate accounts for each country.

The Forestry Commission Compensation Scheme, which is also administered by the Forestry Commission, provides a range of compensation benefits for employees who leave service before their normal retirement age under an early retirement scheme. For staff leaving on or prior to 31 March 1999, the future liabilities for monthly "compensation" payments are shown in the Forestry Commission accounts for England and Great Britain. For staff leaving on or after 1st April 1999, the future liabilities for monthly "compensation" payments are shown in the Forestry Commission accounts for the country or part of the organisation in which the officer was serving at the time that they took early retirement.

Foreword (continued)

3 Auditors

These accounts are prepared in accordance with a direction given by the Treasury in accordance with Section 5 (2) of the Government Resources and Accounts Act 2000. They are audited by the Comptroller and Auditor General.

D J Bills CBE

Accounting Officer

14 November 2002

Report of the Managers

1 Introduction

The Forestry Commission Pension Scheme was an unfunded, non-contributory (apart from contributions for widows'/widowers' benefits), voluntary membership scheme which was administered by the Forestry Commission. The Pension Scheme operated under the Forestry Act 1967 in strict by-analogy with the Principal Civil Service Pension Scheme.

Until it ceased to exist, the Managers, Advisers and Employers for the Scheme were as listed below:

Managers

Accounting Officer:	David J Bills
Forestry Commission Pension Scheme Manager:	Duncan Macniven

The managers of the scheme can be contacted at The Forestry Commission, 231 Corstorphine Road, Edinburgh, EH12 7AT.

Advisers

Pension Scheme Actuary:	Government Actuary's Department, New Kings Beam House, 22 Upper Ground, London SE1 9RJ
Bankers:	Bank of England, Threadneedle Street, London, EC2R 8AH
Legal Advisors:	The Forestry Commission solicitors, MAFF/DEFRA, 55 Whitehall, London, SW1A 2EY
Auditors:	The Comptroller and Auditor General, 157-197 Buckingham Palace Road, Victoria, London, SW1W 9SP

Employers

The Forestry Commission:	231 Corstorphine Road, Edinburgh, EH12 7AT
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Administration of the Forestry Commission Pension scheme was contracted to Paymaster (1836) limited.

Relationship with the Forestry Commission Compensation Scheme

The Forestry Commission Compensation Scheme, which continues to be administered by the Forestry Commission, provides a range of compensation benefits for employees who leave service before their normal retirement age under an early retirement scheme. The current regulation under which the Scheme operates is the Forestry Commission Compensation Scheme 1996, which is in strict by-analogy with the Civil Service Compensation Scheme. Further information about the Forestry Commission Compensation Scheme can be found in the rules of the Civil Service Compensation Scheme. Administration of the Forestry Commission Compensation Scheme is contracted to Paymaster (1836) limited.

Report of the Managers (continued)

2 Changes to the Forestry Commission Pension Scheme

Pension payments were increased by 3.3 per cent with effect from 8th April 2001.

3 Transfer of Forestry Commission Pension Scheme

Following discussions with the Treasury, Forestry Commission staff were deemed to be civil servants and were therefore eligible for membership of the Principal Civil Service Pension Scheme without the need for the primary legislation that would otherwise have been required to allow a scheme transfer to take place.

Transferring to the Principal Civil Service Pension Scheme did not affect the superannuation benefits of staff as the Forestry Commission Pension Scheme operated in strict by-analogy to the Principal Civil Service Pension Scheme. Accordingly staff transferred to the Principal Civil Service Pension Scheme with effect from 1st December 2001.

A report from the Government Actuary was deemed to be unnecessary because all assets and liabilities of the Forestry Commission Pension Scheme transferred to the Principal Civil Service Pension Scheme when the Forestry Commission Pension Scheme closed on 30th November.

4 Principal Civil Service Pension Scheme 2000

The Principal Civil Service Pension Scheme 2000 is a new scheme that is scheduled to be introduced in October 2002. It is radically different to the current scheme and has been created to reflect the changes in employment practices in the modern Civil Service since the original scheme was introduced in 1972. On its introduction, the current Principal Civil Service Pension Scheme will be closed to new members, and new staff will join the new scheme. An options exercise commenced in January 2002 to provide current Principal Civil Service Pension Scheme staff with a statement that compares their forecasted benefits under each scheme – they may then elect to transfer their current benefits into the new scheme in October 2002.

5 Membership Statistics

Details of the membership of the Forestry Commission Pension Scheme were as follows:

A Active Members

Active members at 1 April 2001	3,118
Add: New entrants in the year	161
Less: Leavers	(243)
Deaths	(–)
Transferred to the Principal Civil Service Pension Scheme	(3,036)
Active Members at 31 March 2002	–

B Deferred Members

Deferred members at 1 April 2001	1,542
Add: Members leaving who have deferred pension rights	13
Less: Members taking up deferred pension rights	(20)
Members transferred to the Principal Civil Service Pension Scheme	(1,535)
Deferred Members at 31 March 2002	–

C Pensioners in Payment

	Members	Dependants	Total
Pensioners in payment at 1 April 2001	4,250	1,663	5,913
Adjustment to opening figures	(37)	64	27
Revised opening figures	4,213	1,727	5,940
Members retiring in year at normal retirement age	58	–	58
Members retiring in year, previously in receipt of Compensation payments	15	–	15
Members taking up deferred pension rights	20	–	20
New dependants	–	62	62
Deaths in year	(130)	(61)	(191)
Pensioners in payment transferred to the Principal Civil Service Pension Scheme	(4,176)	(1,728)	(5,904)
Pensioners in Payment at 31 March 2002	–	–	–

6 Further information

Any enquiries about the Forestry Commission Pension Scheme should be addressed to:

D Macniven
The Scheme Administrator
The Forestry Commission Pension Scheme
231 Corstorphine Road
Edinburgh
EH12 7AT

D Macniven

14 November 2002

Statement of Forestry Commissioners' and Accounting Officer's Responsibilities

- 1 Under section 5(2) of the Government Resources and Accounts Act 2000, the Forestry Commission is required to prepare resource accounts for each financial year, in conformity with a Treasury direction, detailing the resources acquired, held or disposed of during the year and the use of resources by the department during the year.
- 2 The resource 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.
- 3 HM Treasury has appointed the Permanent Head of Department as principal Accounting Officer of the department with overall responsibility for preparing the department's accounts and for transmitting them to the Comptroller and Auditor General.
- 4 In preparing the accounts the principal Accounting Officer is required to comply with the *Resource Accounting Manual* prepared by HM Treasury, and in particular to:
 - observe the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
 - make judgements and estimates on a reasonable basis;
 - state whether applicable accounting standards, as set out in the *Resource Accounting Manual*, have been followed, and disclose and explain any material departures in the accounts;
 - prepare the accounts on the going concern basis.
- 5 In addition the Director General of the Forestry Commission, as principal Accounting Officer, has designated the Chief Executive of Forest Enterprise as the Accounting Officer for the Agency. This appointment does not detract from the Head of Department's overall responsibility as Accounting Officer for the department's accounts.
- 6 The responsibilities of the Director General, as principal Accounting Officer, including responsibility for the propriety and regularity of the public finances for which an Accounting Officer is answerable, for keeping proper records and for safeguarding the department's assets, are set out in the Accounting Officers' Memorandum, issued by the Treasury and published in *Government Accounting*. Under the terms of the Accounting Officers' Memorandum, the relationship between the department's principal Accounting Officer and the Chief Executive of Forest Enterprise, together with their respective responsibilities, is set out in writing.

Statement on Internal Control

As Accounting Officer, I acknowledged my responsibilities for ensuring that a sound system of internal control was maintained and operated in relation to the Forestry Commission Pension Scheme.

A system of internal control can provide only reasonable and not absolute assurance that assets are safeguarded, transactions authorised and properly recorded, and that material errors or irregularities are either prevented or would be detected within a timely period.

The system of internal control which related to the Forestry Commission Pension Scheme was based on a framework of regular management information; financial regulations, administrative procedures, including the segregation of duties; management supervision; and a system of delegation of accountability. In particular, the system included comprehensive budgeting systems with an annual budget, which was reviewed and agreed by the Management Board and regular reviews by the Management Board of the periodic and annual financial forecasts which indicated financial performance against those forecasts.

As Accounting Officer I receive periodic reports from the chairman of the Departmental Audit Committee concerning internal control. The Forestry Commission also has an overarching Audit Committee, which is chaired by the Chairman of the Board of Commissioners. Its remit includes advice to me on the effectiveness of risk management and control throughout the Commission and its Agencies. The work of the internal and external auditors is reported annually to the full Board of Forestry Commissioners.

The Forestry Commission has an Internal Audit Unit, which operates to standards defined in the Government Internal Audit Manual. The work of the Internal Audit Unit in respect of the Scheme was informed by an analysis of the risks to which the Scheme was exposed and the internal audit plans were based on this analysis. The analysis of risk and the internal audit plans are endorsed by the Forestry Commission Audit Committee and approved by me. In accordance with the agreed internal audit plans, the Head of Internal Audit (HIA) in the Forestry Commission provided me with reports on internal audit activity of the Scheme. These reports included the HIA's independent opinion on the adequacy and effectiveness of the Scheme's system of internal controls.

My review of the effectiveness of the system of internal control was also informed by:

- the executive managers of the Scheme who had responsibility for the development and maintenance of the internal control framework;
- the work of the internal auditors, as described above;
- comments made by the external auditors in their management letter and other reports.

Reliance was also placed on the internal audit departments of the Office of the Paymaster General and ADP Chessington.

D J Bills CBE

Accounting Officer
14 November 2002

Certificate and Report of the Comptroller and Auditor General to the House of Commons

I certify that I have audited the financial statements on pages 110 to 118 under the Government Resources and Accounts Act 2000. The financial statements have been prepared under the accounting policies set out on pages 113 to 114.

Respective responsibilities of the Accounting Officer and Auditor

As described on page 106, the Accounting Officer is 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 transactions. The Accounting Officer is also responsible for the preparation of the contents of the Accounts. 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 report whether the contributions payable to the scheme have been paid in accordance with the Scheme rules and the recommendations of the actuary. I also report if, in my opinion, the Report of the Scheme manager is not consistent with the financial statements, if the Department has not kept proper accounting records for the Scheme or if I have not received all the information and explanations I require for my audit.

I read the other information contained in the Accounts 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 107 reflects the Department's compliance with Treasury's guidance 'Corporate Governance: Statement on Internal Control'. I report if it does not meet the requirements specified by Treasury or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements.

Basis of audit opinion

I conducted my audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination on a test basis of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Department in the preparation of the financial statements and of whether the accounting policies are appropriate to the scheme'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. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements.

My opinion takes into account that unfunded liabilities to pay pensions after the end of the Scheme's year are not required to be recognised in the financial statements but are disclosed in the report of the actuary.

Opinion

In my opinion:

- the financial statements give a true and fair view of the financial transactions of the Forestry Commission Pension Scheme for the year ending 31 March 2002, the net outgoings and cash requirement for the year and the amount and disposition at that date of its assets and liabilities other than liabilities to pay pensions after the end of the Scheme year, and have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and directions made thereunder by the Treasury;
- 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; and
- the contributions payable to the Scheme during the year ended 31 March 2002 have been paid in accordance with the Scheme rules and the recommendations of the Actuary.

I have no observations to make on these financial statements.

John Bourn

Comptroller and Auditor General
15 January 2003

National Audit Office
157-197 Buckingham Palace Road
Victoria
London SW1W 9SP

Schedule 1

Summary of Resource Outturn

for the year ended 31 March 2002

	Note	2001-02 Estimate			2001-02 Outturn			Net total compared with Estimate saving/ (excess) £000	2000-01 Prior year outturn -Net £000
		Gross Expenditure £000	Contributions Received £000	Net Total £000	Gross Expenditure £000	Contributions Received £000	Net Total £000		
Request for resources		520,053	(7,330)	512,723	519,078	(7,028)	512,050	673	17,415
Net cash requirement	12			512,723			512,681	42	17,239
Reconciliation of resources to cash requirement									
		£000	£000	£000	£000	£000	£000	£000	£000
Net total resources				512,723			512,050	673	17,415
Less: Contributions received				-			-	-	-
Total				512,723			512,050	673	17,415
Accruals adjustments:									
Changes in working capital other than cash	15			-			631	(631)	(176)
Transfer from/(to) provision				-			-	-	-
Adjustment in respect of CFERs				-			-	-	-
Net cash requirement	12			512,723			512,681	42	17,239

Explanation of the variance between Estimate and Outturn:

The outturn is within 0.01% of the Estimate and does not require an explanation.

The Notes on pages 113 to 118 form part of these accounts.

Schedule 2

Revenue Account

for the year ended 31 March 2002

	Note	£000	2001-02 £000	£000	2000-01 £000
Contributions and Benefits					
Contributions received	3	6,734		9,790	
Transfers in	4	294		349	
Other Income		–		–	
Total			7,028		10,139
Benefits payable	5	18,858		27,156	
Leavers	6	500,220		398	
Other expenditure		–			
Total			519,078		27,554
Net Outgoings for the Year			512,050		17,415

The Notes on pages 113 to 118 form part of these accounts.

Schedule 3

Balance Sheet

as at 31 March 2002

	Note	£000	2001-02 £000	£000	2000-01 £000
Debtors: Contributions					
due in respect of:					
Pensions	8	–		–	
Overpayments outstanding	8	–		15	
Total			–		15
Cash balance at PAYMASTER		–		–	
Cash at bank and in hand		–		–	
Total			–		–
Current assets:			–		15
Creditors (amounts falling					
due within 12 months)	9		–		(646)
Net current assets			–		(631)
Provisions for liabilities					
and charges			–		
Net liabilities			–		(631)
Financed by:					
Revenue account			–		–
Balance brought forward			–		–
Financing from the Consolidated Fund			–		(631)
Combined net out-goings for the year			–		–
Balance Carried Forward			–		(631)

The Notes on pages 113 to 118 form part of these accounts.

D J Bills CBE

Accounting Officer

14 November 2002

Notes to the Pension Scheme Resource Accounts

1 Basis of Preparation of the Scheme Statements

The Scheme statements have been prepared in accordance with the relevant provisions of the Resource Accounting Manual issued by the Treasury, which are in turn based on the recommendations of the Statement of Recommended Practice entitled Financial Reports of Pension Schemes and within the framework of legislation under which the Forestry Commission reports (for England and Great Britain; principally the Forestry Acts 1967 and 1979).

The accounting policies adopted are described below. They have been applied consistently in dealing with items that are considered material in relation to the Scheme statements.

2 Statement of Accounting Policies

A Pension Contributions

Employers' normal pension contributions and Employees' pension contributions (which include amounts paid in respect of the purchase of added years but which exclude Additional Voluntary Contributions) were accounted for on an accruals basis.

B Transfers

Transfers in and out were accounted for on an accruals basis.

C Additional Voluntary Contributions

Additional Voluntary Contributions (AVCs) were deducted from employees' salaries and paid over to the approved AVC providers.

D Pension Benefits Payable

Pension benefits payable were accounted for on an accruals basis.

E Pension Payments to, and on Account of, Leavers Before Their Normal Retirement Age

Where a member of the pension scheme was entitled only to a refund of contributions (where they had served less than 2 years), the transaction has been accounted for on a cash basis.

F Pension Payments to Those Retiring at Their Normal Retirement Age

Where a retiring member of the Pension Scheme had no choice over the allocation of benefits receivable between the value of the lump sum and the annual pension, the transaction has been accounted for on an accruals basis.

G Overpayments of Pensions

Recoveries of overpayments of pensions were netted off against the original expenditure.

Notes to the Pension Scheme Resource Accounts (continued)

H Liabilities for Compensation Payments

The opinion of the Forestry Commission, having taken legal advice, is that the Pension Scheme acted and the Compensation Scheme acts as an agent rather than as a principal. Staff who take early retirement (before reaching age 60), may be entitled to compensation payments. The liabilities for such payments are shown in the main accounts of the Forestry Commission and its agencies, rather than the Pension Scheme accounts. The amounts paid in compensation payments (lump sums and monthly payments) are shown for information purposes only at note 16.

3 Pension Contributions Receivable

	2001-02 £000	2000-01 £000
Employers	6,049	8,842
Employees:		
Normal	566	874
Purchase of added years	119	74
Total	6,734	9,790

4 Pensions Transfers-in

	2001-02 £000	2000-01 £000
Individual transfers-in from other Schemes	294	349

5 Pension Benefits Payable

	2001-02 £000	2000-01 £000
Pensions or annuities:		
Amounts paid to retired employees and dependants including amounts accrued but not paid as at 31 March	16,691	25,227
Commutations or lump sum benefits:		
On retirement	2,122	1,825
On death	45	125
Injury benefits	–	–
Less recovery of overpayments:		
Amounts recovered	–	(6)
Amounts outstanding at 31 March	–	(15)
Total	18,858	27,156

6 Pension Payments to and on Account of Leavers

	2001-02 £000	2000-01 £000
Refunds to members leaving the service	–	45
Payments for members joining the State Scheme	–	–
Group transfers to other Schemes	500,000	–
Individual transfers to other Schemes	220	353
Total	500,220	398

7 Other Expenditure

There has been no other expenditure in respect of the Pension Scheme during the current or preceding years.

8 Debtors: Contributions Due in Respect of Pensions/overpayments outstanding

Overpayments of pension benefits are made via adjustments to subsequent payments or are reclaimed. The amount outstanding as at 31 March 2002 was £Nil (£14,875 2000-01).

9 Creditors – Amounts Falling Due Within 12 Months

	2001-02 £000	2000-01 £000
Pensions payable	–	490
Lump sums	–	156
Total	–	646

10 Additional Voluntary Contributions

The Forestry Commission Pension Scheme provided, and the Principal Civil Service Pension Scheme continues to provide, for employees to make Additional Voluntary Contributions to increase their pension entitlements and to increase life assurance cover. Employees may arrange to have agreed sums deducted from their salaries, for onward payment to one or more of the approved providers (Scottish Widows, Standard Life and Equitable Life). Alternatively, they may chose to make their own arrangements by making periodic payments to an insurance company or scheme institution which offers Free Standing Additional Voluntary Contribution schemes. The Managers of the Forestry Commission Pension Scheme were, and the Managers of the Principal Civil Service Pension Scheme are, only responsible for payments made to the Scheme's approved providers. Members participating in this arrangement receive an annual statement from the approved provider made up to 31st March each year confirming the amounts held in their account and the movements in year.

Additional Voluntary Contributions transactions have not been recorded in the main Pension Scheme statements in accordance with the Resource Accounting Manual.

Notes to the Pension Scheme Resource Accounts (continued)

The amounts paid to each Additional Voluntary Contributions provider and the value of these contributions are shown below.

Equitable Life

Total value of contributions as at 1.4.2001 £000	Contributions paid during 2001-02 £000	Changes in market value/payment of retirement benefits/leavers £000	Total value of contributions as at 31.3.2002 £000
519	30	(214)	335

Scottish Widows

Total value of contributions as at 1.4.2001 £000	Contributions paid during 2001-02 £000	Bulk transfers in and changes in market value/Sales of investments to provide pension benefits £000	Total value of contributions as at 31.3.2002 £000
65	54	186	305

Standard Life

Standard Life became an approved AVC supplier on 1st January 2002, but as at 31st March 2002, no contributions had been made.

11 Contingent Liabilities

In the event of a default by one of the approved Additional Voluntary Contributions providers, pension payments would be met by the Policy Holders Protection Act 1975 (as amended by the PPA 1997). In the unlikely event of the failure of both of these sources, the Principal Civil Service Pension Scheme will guarantee pension payments (this guarantee does not apply to members who make payments to institutions offering Free Standing Additional Voluntary Contributions).

12 Reconciliation of Financing from Consolidated Fund to Net Cash Requirement

	2001-02 £000
Voted from Consolidated Fund (Schedule 1)	512,681
Less: amounts undrawn at 30th November 2001	–
Financing from Consolidated Fund (see Schedule 1)	512,681
Adjustment in respect of Consolidated Fund	–
Extra Receipts (CFERs)	–
Net Cash Requirement (Schedule 1)	512,681

13 Related-Party Transactions

The Forestry Commission Pension Scheme fell within the ambit of the Forestry Commission, which is regarded as a related party. During the year, the Scheme had material transactions with the Forestry Commission and its Executive Agencies (whose employees are members of the Scheme). Other than this, none of the Managers of the Scheme, key managerial staff or other related parties undertook any material transactions with the Schemes during the year.

14 Cash at Bank and at Hand

The Forestry Commission did not hold bank balances in relation to the Pension Scheme.

15 Movements in Working Capital Other than Cash

These comprised:	2001-02 £000	2000-01 £000
Debtors	(15)	(3)
Creditors	646	(173)
Total	631	(176)

By 31st March 2002, the Forestry Commission Pension Scheme had closed and all assets and liabilities had been transferred to the Principal Civil Service Pension Scheme.

16 Compensation Benefits Payable

	2001-02 £000	2000-01 £000
Annual compensation payments	1,527	1,458
Lump-sum payments	255	327
Total	1,782	1,785

Staff who take early retirement (before reaching age 60), may be entitled to compensation payments. The liabilities for such payments are shown in the main accounts of the Forestry Commission and its Agencies, rather than the Pension Scheme accounts. The amounts paid in compensation payments (lump sums and monthly payments) are shown for information purposes only above.

Notes to the Pension Scheme Resource Accounts (continued)

17 Cash Flow Reconciliation**Reconciliation of Net Outgoings for the Year to Net Cash Requirement**

	2001-02 £000	2000-01 £000
Net Outgoings for the Year (Schedule 2)	512,050	17,415
Adjustments for Movements in Working Capital Other Than Cash (Schedule 3)	631	(176)
Adjustments for Movements in Provisions	–	–
Net Cash Outflow from Operating Activities	512,681	17,239
Consolidated Fund Extra Receipts	–	–
Payments of Extra Receipts to the Consolidated Fund	–	–
Financing	512,681	17,239
Increase/(Decrease) in cash during the period	–	–
	512,681	17,239
Remove payments/add receipts not related to supply: CFERs received and not paid over (excess A in A)	–	–
Net Cash Requirement (Schedule 1)	512,681	17,239

Accounts Direction given by the Treasury

Accounts Direction given by the Treasury in accordance with Section 5 (2) of the Government Resources and Accounts Act 2000

- 1 This direction applies to those government departments and pension schemes listed in the attached appendix.*
- 2 Those departments and pension schemes shall prepare resource 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 ("the Resource Accounting Manual") which is in force for that financial year.
- 3 The accounts for government departments shall be prepared so as to give a true and fair view of the state of affairs at 31 March 2002 and of the net resource outturn, resources applied to objectives, recognised gains and losses and cash flows for the financial year then ended. The accounts for pension schemes shall be prepared so as to give a true and fair view of the state of affairs at 31 March 2002 and of the net resource outturn, and cash flows for the financial year then ended.
- 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 with both 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.

David Loweth

Head of Central Accountancy Team, Her Majesty's Treasury

31 January 2002

*The Forestry Commission was one of the departments listed in the appendix which is referred to.

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Foreword

1 Accounts Direction

The accounts have been prepared under a direction given by the Treasury in accordance with Section 7 of the Government Resources and Accounts Act 2000. The direction is produced as an appendix to the accounts.

2 Background Information

Forest Enterprise became an executive agency on 1 April 1996. It manages the forest estate of the Secretary of State for Environment, Food and Rural Affairs, Scottish Ministers and the National Assembly for Wales. Forest Enterprise is part of the Forestry Commission which is a cross-border government department headed by a Board of Forestry Commissioners established by statute (the Forestry Act 1967, as amended). The Forestry Commission reports to the respective Forestry Minister for its activities.

In line with the normal arrangements for agencies the quinquennial review of Forest Enterprise was completed in 2001. Forestry Ministers decided that Forest Enterprise should retain its status as an executive agency of the Forestry Commission. When announcing the conclusions of the review in May 2001, Forestry Ministers also announced a review of the devolution arrangements for delivering sustainable forestry policies in England, Scotland and Wales and the UK's international forestry commitments. In August 2002, Forestry Ministers agreed the recommendations of the interdepartmental group conducting the review which included devolving Forest Enterprise into three bodies, charged with managing separately the public forests in England, Scotland and Wales.

The Office of National Statistics designated Forest Enterprise, for national accounting purposes, as a public corporation in January 1999 in accordance with European System of Accounts (ESA) 95. Following devolution it has been designated as three separate public corporations covering activities in England, Scotland and Wales. Accordingly, it is outside the departmental boundary for resource accounting purposes with the net funding and net worth reflected in the Forestry Commission's consolidated resource accounts for England/Great Britain, Scotland and Wales.

3 Aims and Objectives

The aims and objectives of Forest Enterprise are described in the Framework Document published in April 1996. They are to produce the environmental, financial, social and other outputs sought by Ministers and the Forestry Commissioners in a way which meets the government's objectives and international commitments and sustains both the environmental quality and the productive potential of the forest estate.

The conclusion of the Forestry Devolution Review will allow resumption of the process, started by the quinquennial review of the agency, of determining a new set of objectives and performance measures for Forest Enterprise. This work is crucial to the agency and will provide the opportunity to clearly articulate the role of the public forest estate and to develop on a country basis, a set of objectives, desired outcomes and performance measures which reflects the contribution that Forest Enterprise can make to delivering the forestry strategies, and other related agenda, of the Scottish, English and Welsh administrations.

Foreword (continued)

Details of the financial performance targets set for Forest Enterprise by the Forestry Commissioners and achievement against those targets are shown in Note 19 to the Accounts. Achievements against other non-financial targets are noted in Forest Enterprise's annual report published separately.

4 Review of Activities

Forest Enterprise in England produced a deficit on its Income and Expenditure Account of £43,229,000 compared to £38,898,000 in 2000-01. A comparison of income and expenditure with the previous year shows that:

- the operating deficit increased by £5,929,000, mainly through a drop in income of £4,807,000 from a depressed timber market and the effects of foot and mouth disease on Forest Holidays;
- net spending on recreation, conservation and heritage increased by £321,000. Income increased by £1,878,000, mainly from additional external funding obtained for new projects counterbalanced by the effects of foot and mouth disease. The development of further projects and events saw an increase in expenditure of £2,199,000;
- the surplus on sale of properties increased by £2,256,000;
- cost of capital increased by £337,000.

After adjusting the total deficit for items not involving the movement in cash and for capital expenditure and income, the net cash funding received from the Forestry Commission was £13,007,000, compared to £13,183,000 in 2000-01.

5 Changes in Fixed Assets

Additions to the forest estate and other land amounted to £4,228,000. Work on office buildings and toilet blocks was completed to the value of £519,000. A sum of £2,000,000 was spent on the Deerpark forest cabins site as part of a re-building project. Purchases of forestry vehicles, machinery and equipment amounted to £465,000 compared with disposals and transfers worth £237,000. A further £109,000 was spent on office equipment.

6 Research and Development

Forest Research, an executive agency of the Forestry Commission, is responsible for carrying out forest research and allied work. Forest Enterprise commissions research from the agency and through external contracts awarded by a variety of means including open tender. Although forestry is a devolved subject, Forest Research continues to be funded from Westminster.

7 Movements in Reserves

The revaluation reserve was adjusted for the downward revaluation of the forest estate amounting to £10,721,000 and an increase in other land £328,000. Forest Holidays land and buildings decreased by £127,000 on revaluation and other buildings increased by £8,456,000. Forestry vehicles, machinery and equipment values decreased by £130,000.

8 Post-Balance Sheet Events

There are no post-balance sheet events other than the outcome of the Forestry Devolution Review noted at paragraph 2.

9 Supplier Payment Policy

Forest Enterprise complies with the government's Better Payment Practice Code. Unless otherwise stated in the contract, we aim to pay within 30 days from the receipt of goods and services or the presentation of a valid invoice, whichever is the later. A sample analysis for 2001-02 indicates that 93.8% of invoices were paid within the due date. Arrangements for handling complaints on payment performance are notified to suppliers on contracts.

10 Employment Policies

Forest Enterprise 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 Enterprise has systems to ensure that all permanent appointments are made on merit 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 from the Personnel Services unit of the Forestry Commission.

11 Management Board

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

Bob McIntosh	Chief Executive
Bob Farmer	Territorial Director Wales
Geoff Hatfield	Territorial Director England
Hugh Insley	Territorial Director Scotland (North)
Mike Lofthouse	Territorial Director Scotland (South)
Ian Forshaw	Director Forest Operations
Keith Gliddon	Director Corporate Services
Wilma Harper	Head of Forest Planning
Craig Heaney	Director Engineering
Iain Miller	Head of Personnel Advisory Unit
Peter Ranken	Director Estate Management
Alan Stevenson	Head of Environment & Communications
Peter Weston	Acting Head of Forest Planning

Iain Miller moved to the Forestry Commission in August 2001 as part of an internal reorganisation. Wilma Harper moved, on promotion, to the Forestry Commission in January 2002 and was replaced by Peter Weston as acting Head of Forest Planning.

12 Auditors

These accounts are audited by the Comptroller and Auditor General.

R McIntosh

Chief Executive and Agency Accounting Officer
9 January 2003

Statement of Forestry Commission's and Chief Executive's Responsibilities

Under Section 7 of the Government Resources and Accounts Act 2000 the Treasury has directed the Forestry Commission to prepare a statement of accounts for Forest Enterprise in England for each financial year in the form and on the basis set out in the accounts direction at Appendix 1 to these accounts. The accounts are prepared on an accruals basis and must give a true and fair view of the Forest Enterprise in England 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 at Appendix 1 to these financial statements, 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 Enterprise will continue in operation.

The Director General of the Forestry Commission, as departmental Accounting Officer, has designated the Chief Executive of Forest Enterprise as the Accounting Officer for the Agency. His relevant responsibilities as Accounting Officer, including his responsibility for the propriety and regularity for 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" (HMSO).

Statement on Internal Control

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of the Agency's policies, aims and objectives, set by Ministers, whilst safeguarding the public funds and assets for which I am personally responsible, in accordance with the responsibilities assigned to me. Control of certain activities is carried out by the Forestry Commission on the Agency's behalf, and in respect of those I place reliance on the Forestry Commission's Statement on 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 the Agency's 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 policies, aims and objectives. This identifies the risks, the adequacy of the controls and any corrective action required. This has been endorsed by the Agency Management Board. We have introduced the topic into a series of financial awareness seminars to be attended during the coming year by staff of all grades with financial responsibilities.

The Management Board meets monthly to consider the plans and strategic direction of the Agency. It receives regular reports from managers on key projects. The risk management policy ensures that the Management 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, including Forest Enterprise, is also monitored by the overarching Forestry Commission Audit Committee. The work of the internal and external auditors is currently reported annually to the full Board of Commissioners; in future this will be expanded to cover the full business of the overarching Forestry Commission Audit Committee.

Statement on Internal Control (continued)

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

- implement the financial awareness seminars which introduce the concepts 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. It submits 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.

R McIntosh

Chief Executive and Agency Accounting Officer

9 January 2003

Certificate of the Comptroller and Auditor General to the House of Commons

I certify that I have audited the financial statements on pages 129 to 145 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 stock and the accounting policies set out on pages 133 to 136.

Respective responsibilities of the Agency, the Chief Executive and Auditor

As described on page 124, the Agency and Chief Executive are responsible for the preparation of the financial statements in accordance with the Government Resources and Accounts Act 2000 and Treasury directions made thereunder and for ensuring the regularity of financial transactions. The Agency and Chief Executive are also responsible for the preparation of other contents of the Annual Report. My responsibilities as independent auditor are established by statute and guided by the Auditing Practices Board and the auditing profession's ethical guidance.

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

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

I review whether the statement on page 125 reflects the Agency's compliance with Treasury's guidance 'Corporate Governance: Statement on Internal Control'. I report if it does not meet the requirements specified by Treasury or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements.

Certificate of the Comptroller and Auditor General to the House of Commons (continued)

Basis of Audit Opinions

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

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

Opinion

In my opinion:

- the financial statements give a true and fair view of the state of affairs of Forest Enterprise in England at 31 March 2002 and of the deficit, 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
15 January 2003

National Audit Office
157-197 Buckingham Palace Road
Victoria
London SW1W 9SP

Income and Expenditure Account

for the year ended 31 March 2002

	Note	2002 £000	2001 £000
Operating income			
Sales of timber		19,635	22,448
Forest protection and maintenance		253	390
Management and development of estate	2b	7,012	8,869
		<u>26,900</u>	<u>31,707</u>
Operating expenditure			
Forest planning		3,013	2,506
Harvesting and haulage of timber		9,564	10,283
Forest roads		2,512	2,303
Forest protection and maintenance		10,535	10,538
Management and development of estate	2b	9,588	8,460
		<u>35,212</u>	<u>34,090</u>
Operating deficit		(8,312)	(2,383)
Recreation, conservation and heritage (RC&H)			
Income		6,337	4,459
Expenditure		14,500	12,301
		<u>(8,163)</u>	<u>(7,842)</u>
Operating deficit net of RC&H		(16,475)	(10,225)
Surplus on sale of properties	4	2,600	344
Deficit		(13,875)	(9,881)
Notional cost of capital	5	(29,354)	(29,017)
Net deficit for the year		(43,229)	(38,898)
Transferred to general fund		<u>(43,229)</u>	<u>(38,898)</u>

There have been no discontinued operations during the year.

The Notes on pages 133 to 145 form part of these accounts.

Statement of Total Recognised Gains and Losses

for the year ended 31 March 2002

	2002	2001
	£000	£000
Net deficit for the year	(43,229)	(38,898)
Revaluation surplus/(deficit) for the year	(2,194)	81,459
Total recognised gains/(losses)	(45,423)	42,561

The Notes on pages 133 to 145 form part of these accounts.

Balance Sheet

as at 31 March 2002

	Note	2002 £000	2001 £000
Fixed assets			
Tangible fixed assets	6	484,244	485,011
Current assets			
Stocks	7	2,132	2,068
Debtors	8	6,142	7,814
Cash at banks and in hand	9	32	10
		8,306	9,892
Creditors – amounts falling due within one year	10	(4,704)	(3,859)
Net current assets		3,602	6,033
Provision for liabilities and charges	11	(299)	(133)
Total assets less liabilities		487,547	490,911
Capital and reserves			
General fund	12	342,380	343,550
Revaluation reserve	13	145,167	147,361
Total capital and reserves		487,547	490,911

The Notes on pages 133 to 145 form part of these accounts.

R McIntosh

Chief Executive and Agency Accountable Officer

9 January 2003

Cash Flow Statement

for the year ended 31 March 2002

	Note	2002 £000	2001 £000
Reconciliation of net deficit to net cash flow from operating activities			
Net deficit for the year		(43,229)	(38,898)
Notional cost of capital		29,354	29,017
Depreciation charges		2,127	2,836
(Profit)/loss on sale of properties	4	(2,925)	(695)
Loss on impairment	6	975	–
(Profit)/loss on sale of other tangible fixed assets		234	41
Non-cash inter-country transfers	12	(356)	148
(Increase)/decrease in stocks		(64)	(21)
(Increase)/decrease in debtors		1,672	(1,718)
Increase/(decrease) in creditors		1,011	741
Net cash outflow from operating activities		(11,201)	(8,549)
Cash flow statement			
Net cash outflow from operating activities		(11,201)	(8,549)
Capital			
New planting		(1,352)	(676)
Payments to acquire tangible fixed assets		(5,969)	(6,193)
Receipts from sale of properties	4	5,537	2,232
Receipts from sale of other tangible fixed assets		–	3
Net capital		(1,784)	(4,634)
Net cash outflow after capital		(12,985)	(13,183)
Financing			
(Surplus)/deficit funded by Forestry Commission		13,007	13,183
Increase/(decrease) in cash		22	–
Reconciliation of net cash flow to movements in net funds			
Increase/(decrease) in cash		22	–
Net funds at 1 April 2001		10	10
Net funds at 31 March 2002		32	10

The Notes on pages 133 to 145 form part of these accounts.

Notes to the Accounts

1 Accounting Policies

A Accounting Convention

In accordance with Section 7 of the Government Resource and Accounts Act 2000, the accounts are drawn up in a format agreed and approved by the Treasury. The accounts 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.

B Tangible Fixed Assets

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 the Forestry Commissioners. Legal ownership of other tangible fixed assets is vested in the Forestry Commissioners. 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.

The forest estate is revalued every five years by regional valuation panels, taking account of the species mix, age, yield class and other relevant factors. The open market value assessment is carried out on the basis of the forest estate being sold in an orderly manner as between a willing seller and a willing buyer in full accordance with public accountability and assuming its existing use. It is further assumed that no restraints exist, as they do in practice, from title, statute and environmental considerations. Each regional panel issues a valuation certificate which follows the principles of RICS Statements of Asset Valuation Practice and Guidance Notes and Financial Reporting Standards. In the absence of an annual forestry based index, an external professional opinion of the open market value is obtained each year which is outside the RICS Red Book Guidelines and without reference to the valuation panels which undertook the 1998 five-year revaluation.

Non-forest land and buildings are assessed at 3-yearly intervals by professionally qualified staff employed by the Forestry Commission following the principles set out in the RICS Appraisal and Valuation Manual. Wherever possible, non-forest land and buildings are valued on the basis of their open market value (OMV) taking account of all relevant circumstances which may affect value. In those infrequent cases where it is not possible to assess the OMV, buildings are assessed on the basis of their depreciated replacement cost (DRC). In the intervening years a general price index is applied.

Forest Holidays land and buildings are revalued annually by a specialist leisure business firm.

Forestry vehicles, machinery and equipment (VME) are revalued every three years by professionally qualified staff employed by the Forestry Commission. In the intervening years a general price index is applied.

Office machinery and equipment (OME) values are updated annually using a general price index.

The normal threshold for capitalisation of assets is £1,500.

Notes to the Accounts (continued)

The revaluation reserve was restated on 1 April 1992 when the basis of accounting for the forest estate changed to open market value. The balance as at 31 March 1996 was then brought forward as the agency's opening revaluation reserve balance but was not apportioned between the classes of asset. The revaluation reserve should be adjusted regularly to take account of disposals as well as regular adjustments for open market price movements and general index price movements to comply with FRS 11 and FRS 15. Forest Enterprise is of the opinion that the level of forest estate disposals since 1996 are not sufficiently significant that adjustments to the revaluation reserve would be material. It is also difficult to distinguish in the revaluation reserve between increases due to growing timber volumes and to price movements. The revaluation reserve is adjusted instead when any surplus or deficit is accounted for at the year end or when its other assets are professionally revalued. As part of the five-year revaluation due on 31 March 2003, Forest Enterprise will review the accounting for the forest estate.

C Depreciation of Tangible Fixed Assets

The forest estate, freehold land and leasehold land are not depreciated.

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:

Freehold buildings	–	over 20 to 60 years
Leasehold buildings	–	over the lease term
Plant and machinery	–	over 3 to 16 years
Office equipment	–	over 4 to 20 years

D Intangible Fixed Assets

There are no intangible fixed assets in the accounts. Purchased software, including software licences, and computer systems development costs are charged to the income and expenditure account in the period in which they have occurred.

E Stocks

Finished goods and work in progress are valued as follows:

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

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

F Provision for Bad and Doubtful Debts

Specific provisions for bad and doubtful debts are set aside based on an annual review.

G Research and Development

Expenditure on research and development is treated as an operating cost in the year in which it is incurred and taken to the income and expenditure account.

H Capital Charge

A notional charge, reflecting the cost of capital used by Forest Enterprise in England, is included in the income and expenditure account. The charge is calculated at the government's standard rate of 6 per cent in real terms on total assets less liabilities.

I Taxation

Forest Enterprise is not subject to corporation tax.

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

J Operating Leases

Costs in respect of operating leases are charged on a straight-line basis over the lease term.

K Insurance

In accordance with normal government accounting practice, Forest Enterprise carries its own insurance risks.

L Pensions

Until 30 November 2001, the Forestry Commission ran a pension scheme for its staff by analogy with the Principal Civil Service Pension Scheme (PCSPS). The final separate Pension Scheme accounts are published in the Forestry Commission in England/Great Britain annual report as it is a reserved Great Britain matter. In accordance with Treasury Accounts directions, the liabilities of the pension scheme are shown in the pension scheme statement, whilst employers' and employees' contributions are included in the accounts of the Forestry Commission and its agencies under staff costs.

From 1 December 2001 the Forestry Commission Pension Scheme was subsumed into the PCSPS. Present and past employees are covered by the provisions of the PCSPS, which is non-contributory and unfunded apart from contributions for widows'/widowers' benefits. Although the scheme is a defined benefit scheme, liability for payment of future benefits is a charge to the PCSPS. Government bodies covered by the PCSPS meet the cost of pension cover provided for the staff they employ by payment of charges calculated on an accruing basis. There is a separate scheme statement for the PCSPS as a whole.

Notes to the Accounts (continued)

Principal Civil Service Pension Scheme 2000 (PCSPS 2000) is a new scheme which is scheduled to be introduced in October 2002. On its introduction the current PCSPS will be closed to new members who will be required to join the new scheme. An options exercise commenced in January 2002 to provide current PCSPS staff with a statement that compares forecasted benefits under each scheme and they may elect to transfer their current benefits into the new scheme in October 2002.

Further information on pensions is contained in Note 3 to the accounts.

M Compensation Scheme

The Forestry Commission is required to meet the additional cost of benefits beyond the normal pension scheme benefits in respect of employees who retire early. It provides in full for this cost when an obligation to pay such costs has been entered into. For staff leaving on or prior to 31 March 1999, the future liabilities for monthly 'compensation' payments are shown in the Forestry Commission accounts for England/Great Britain. For staff leaving on or after 1 April 1999, the payments are shown in the Forestry Commission or agency accounts for the country in which staff were serving at the time they took early retirement. The early retirement costs for 5 members of staff who left during 2000-01 were funded by the Modernising Government Fund with the objective of increasing the diversity of the workforce. These costs have been included in the income and expenditure account and balance sheet in line with other early retirements.

2 Operating Deficit

(a) The operating deficit net of recreation, conservation and heritage is stated after charging:

	2002 £000	2001 £000
Depreciation of fixed assets	2,127	2,831
Hire of plant and equipment	620	451
Operating lease rentals: land and buildings	233	218
other	1,059	1,003
Travel and subsistence	2,123	1,423
Other expenses	4,070	4,122

Other expenses included Auditors' remuneration of £32,960.

There are four Forest Enterprise units supplying England, Scotland and Wales with specialist services: supply of trees for planting, mechanical engineering, civil engineering and design and interpretation. The costs of these units are recovered through the year by internal charges.

Forest Enterprise Head Office has three primary functions: developing corporate strategy and policies, performance monitoring and reporting, and providing corporate support services including estate management, accountancy services and business planning support. Wherever possible the support services are charged out in the year to each country based on service level agreements. The remaining costs are apportioned at the end of the year on a defined basis, first to operational activities and then to each country.

The central services of the Forestry Commission for information technology, personnel, training, public relations and internal audit are made available through service level agreements. These services are charged out in the year to internal customers in Forest Enterprise. The Forestry Commission is charged for their share of finance services provided by Forest Enterprise and for mechanical engineering services.

The Forest Research Agency provides research development and survey services to Forest Enterprise through a service level agreement and charges internal Forest Enterprise customers in the year. Forest Enterprise charges the Forest Research Agency for mechanical engineering services, property rentals and central finance services.

(b) Income and expenditure from management and development of estate included in the operating deficit are:

	Income £000	Expenditure £000	2002 Net £000	2001 Net £000
Forest Holidays	2,651	3,551	(900)	566
Estate management	2,678	4,586	(1,908)	322
Other	1,683	1,451	232	(479)
Totals	7,012	9,588	(2,576)	409

Forest Holidays is a separate business unit which operates within Forest Enterprise to provide accommodation at self-catering log cabins and camping and touring caravan sites. Income and expenditure is apportioned at the end of the year to England, Scotland and Wales based on turnover by country. Forest Holidays earned a real rate of return on capital invested, before adjusting for a loss on impairment (see note 6), of 1.2 per cent compared with a target rate of 8 per cent due mainly to the effects of foot and mouth disease.

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

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

3 Staff Numbers and Costs

(a) Employees and Costs

The average number of whole time equivalent persons employed in Forest Enterprise in England during the year was 717 (715 in 2000-01). A further 443 staff (530 in 2000-01) were employed on a Great Britain basis to provide support to Forest Enterprise activities in all three countries.

Notes to the Accounts (continued)

The aggregate payroll costs were as follows:

	2002 £000	2001 £000
Salaries	16,247	16,052
Social security costs	1,063	1,136
Employers superannuation costs	2,214	2,231
	19,524	19,419

Until 30 November 2001 staff were covered by the Forestry Commission Pension Scheme (FCPS) which was a defined benefit pension scheme. The employers' contribution rates to the FCPS were in the range 15 – 22 per cent, according to grade, as determined by the Government Actuary. Actual payments were met by the Forestry Commission and reflected in the final FCPS accounts which can be found in the Forestry Commission in England/Great Britain annual report. From 1 December 2001 the scheme was subsumed into the Principal Civil Service Pension Scheme (PCSPS). The 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. A full actuarial valuation was carried out at 31 March 1999. Details can be found in the resource accounts of the Cabinet Office; Civil Superannuation (www.civilservice-pensions.gov.uk). For 2001-02, employers' contributions of £694,000 were payable to the PCSPS (£Nil in 2000-01) at one of the four rates in the range 12 to 18.5 per cent of pensionable pay, based on salary bands. Rates will remain the same for the next two years, subject to revalorisation of the salary bands. Employer contributions are to be reviewed every four years following a full scheme valuation by the Government Actuary. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

Benefits in kind are provided under the following schemes, subject to conditions and financial limits:

- (i) advances of salary for house purchase;
- (ii) advances of salary for purchase of season tickets and bicycles;
- (iii) car provision scheme.

The advances of salary for house purchase scheme had 3 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 £19,493. In addition, there was 1 loan with an outstanding balance of £9,353 to a member of staff employed on a Great Britain basis. For accounting purposes, the loan is spread over the countries on an agreed basis.

(b) Management Board

The salary and pension entitlements of the management board of the agency were as follows:

Board Member	Age	Salary	Real increase in pension at age 60	Total accrued pension at age 60 at 31 March 2002
		£000	£000	£000
Bob McIntosh	50	75-80	0-2.5	25-30
Bob Farmer	53	50-55	0-2.5	15-20
Geoff Hatfield	50	65-70	0-2.5	20-25
Hugh Insley	53	50-55	0-2.5	20-25
Mike Lofthouse	57	55-60	0-2.5	20-25
Ian Forshaw	46	45-50	0-2.5	10-15
Keith Gliddon	50	45-50	0-2.5	15-20
Wilma Harper	46	45-50	0-2.5	10-15
Craig Heaney	53	55-60	0-2.5	20-25
Iain Miller	56	45-50	0-2.5	20-25
Peter Ranken	51	55-60	0-2.5	20-25
Alan Stevenson	44	50-55	0-2.5	10-15
Peter Weston	43	45-50	0-2.5	5-10

Salaries include gross salaries, performance bonuses and benefits in kind.

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 children's benefits. Pensions increase in payment 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.

Notes to the Accounts (continued)

4 Sale of Properties

	2002 £000	2001 £000
Income	5,537	2,232
Book value	(2,612)	(1,537)
	2,925	695
Disposal costs:		
External costs	(110)	(54)
Administrative expenses	(215)	(297)
Surplus on sale of properties	2,600	344

5 Notional Cost of Capital

Notional cost of capital based on 6% of average total assets less liabilities employed in 2001-02 amounted to £29,354,000.

6 Tangible Fixed Assets

	Forest Estate £000	Land £000	Forest Holidays Land £000	Buildings £000	Forest Holidays Buildings £000	VME £000	OME £000	Total £000
Valuation:								
At 1 April 2001	429,844	18,293	1,915	29,493	3,971	13,665	2,084	499,265
Additions	2,014	2,214	–	519	2,000	465	109	7,321
Disposals/transfers	(682)	(184)	–	(1,428)	(478)	(3,069)	(66)	(5,907)
Revaluation adjustment	(10,721)	328	(160)	6,000	(343)	(713)	–	(5,609)
Loss on impairment	–	–	–	–	(975)	–	–	(975)
At 31 March 2002	420,455	20,651	1,755	34,584	4,175	10,348	2,127	494,095
Depreciation:								
At 1 April 2001	–	–	–	1,753	365	10,482	1,654	14,254
Provided during year	–	–	–	848	196	936	147	2,127
Disposals/transfers	–	–	–	(145)	(72)	(2,836)	(62)	(3,115)
Revaluation adjustment	–	–	–	(2,456)	(376)	(583)	–	(3,415)
Loss on impairment	–	–	–	–	–	–	–	–
At 31 March 2002	–	–	–	–	113	7,999	1,739	9,851
Net book value:								
At 31 March 2002	420,455	20,651	1,755	34,584	4,062	2,349	388	484,244
At 1 April 2001	429,844	18,293	1,915	27,740	3,606	3,183	430	485,011

Note 1 Accounting Policies sets out the basis on which fixed assets are revalued.

The forest estate was subject to a full professional revaluation as at 31 March 1998 by regional valuation panels comprising Bidwells, John Clegg & Co., Savills, Smiths Gore and Strutt & Parker as well as professionally qualified land agents employed by the Forestry Commission. In the intervening years the valuation has been updated annually using an external professional opinion from Bidwells and John Clegg & Co. The next full revaluation is due as at 31 March 2003. Non-forest land and buildings were subject to a triennial revaluation as at 31 March 2002 by professionally qualified land agents employed by the Forestry Commission. Forest estate and other land and buildings assets comprise both freehold and leasehold assets.

Forest Holidays land and buildings were revalued by Barrs and Co. of Leeds as at 31 March 2002. The cabins at Deerpark, Cornwall were demolished in year as part of a modernisation programme and the loss on disposal recognised through the income and expenditure account. £2 million had been spent on site modernisation as at the balance sheet date but the asset under construction was subsequently valued at £1.025 million and the balance sheet adjusted for the impairment to date.

Forestry vehicles, machinery and equipment (VME) were subject to a triennial revaluation as at 31 March 2002 by professionally qualified staff employed by the Forestry Commission. A nil revaluation increase was applied to office machinery and equipment (OME) as at 31 March 2002.

7 Stocks

	2002 £000	2001 £000
Timber	391	517
Plants and seed	1,134	985
Consumable materials, supplies and livestock	607	566
	2,132	2,068

8 Debtors

	2002 £000	2001 £000
Trade debtors	4,343	5,665
Other debtors	1,193	2,149
Prepayments	606	–
	6,142	7,814

Other debtors include amounts falling due after more than one year of £206,000 (£191,000 as at 31 March 2001).

9 Cash at Banks and in Hand

	2002 £000	2001 £000
Cash at commercial banks and in hand	32	10
	32	10

Cash, except petty cash, is held by the Forestry Commission Great Britain/England.

Notes to the Accounts (continued)

10 Creditors: amounts falling due within one year

	2002 £000	2001 £000
Payments received on account	950	11
Trade creditors	2,853	3,321
Provision for compensation charges	94	53
Other creditors including taxation and social security costs	807	474
	<u>4,704</u>	<u>3,859</u>

Other Creditors includes a provision of £380,000 for known cases of Employers Liability claims where the value and likely timing of these payments is uncertain (£177,400 in 2000-01).

11 Provision for Liabilities and Charges

	2002 £000	2001 £000
Balance at 1 April 2001	186	88
Utilised in year	(89)	–
Increase in provision	296	98
Balance at 31 March 2002	<u>393</u>	<u>186</u>
Amounts falling due within one year	94	53
Amounts falling due after more than one year	299	133

The provision for liabilities and charges relates solely to early retirement compensation payments of £299,000 (£133,000 for 2000-01) falling due after more than one year. The Forestry Commission is required to meet the additional cost of benefits beyond the normal pension scheme benefits in respect of employees who retire early. It provides in full for this cost when an obligation to pay such costs has been entered into and subsequent annual payments to individuals are set against the provision.

12 General Fund

	2002 £000	2001 £000
Balance brought forward	343,550	410,415
Movement in year:		
- Net deficit for year	(43,229)	(38,898)
- Notional cost of capital	29,354	29,017
- Cash deficit funded by Forestry Commission	13,007	13,183
- Transfers of fixed assets from/to other Forestry Bodies	54	–
- Transfers between general fund and revaluation reserve	–	(70,315)
- Non-cash inter-country transfers	(356)	148
	<u>(1,170)</u>	<u>(66,865)</u>
Balance carried forward	<u>342,380</u>	<u>343,550</u>

Non-cash inter-country transfers include transfers of provisions, VAT to the Forestry Commission in England/Great Britain and workers clothing. The net total of the transactions for 2001-02 is £356,000.

13 Revaluation Reserve

	2002 £000	2001 £000
Cumulative revaluation reserve brought forward	147,361	65,902
Transfers between general fund and revaluation reserve:	–	70,315
Revaluation deficit for the year ended 31 March 2002		
- Forest Estate	(10,721)	10,907
- Land	328	(565)
- Forest Holidays land	(160)	(4)
- Buildings	8,456	451
- Forest Holidays buildings	33	321
- VME	(130)	41
- OME	–	(7)
	(2,194)	11,144
Balance carried forward	145,167	147,361

14 Operating Leases

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

	2002 £000	2001 £000
Land and building leases expiring within:		
One year	–	9
Two to five years	18	19
More than five years	199	187
	217	215

The four Forest Enterprise units supplying specialist services have commitments on operating leases rentals for the next year as follows:

	2002 £000	2001 £000
Land and building leases expiring within:		
One year	–	–
Two to five years	10	10
More than five years	49	49
	59	59

Notes to the Accounts (continued)

	2002 £000	2001 £000
Other leases expiring within:		
One year	–	281
Two to five years	3,291	2,714
More than five years	80	15
	3,371	3,010

15 Contingent Liabilities

There were £207,000 contingent liabilities at 31 March 2002 for damages caused to other persons' property and for compensation for personal injury to employees (£109,300 at 31 March 2001). The amount and timing of payment is dependent on the outcome of each case which can, in some instances, involve lengthy legal proceedings.

16 Capital Commitments

Amounts contracted for but not provided in the accounts amounted to £2.8m and is part of the modernisation programme on the Forest Holiday's cabins at Deerpark, Cornwall.

17 Related Party Transactions

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

In addition, Forest Enterprise has had various material transactions with other government departments and other central government bodies. The main entities within government with which Forest Enterprise has had dealings are H M Treasury, Welsh Assembly, Scottish Executive, Paymaster General's Office, Customs and Excise, the Inland Revenue and the Department for Environment, Food and Rural Affairs (and its predecessors prior to June 2001, the Ministry of Agriculture, Fisheries and Food, and the Department for Environment, Transport and the Regions).

In the year to 31 March 2002, Forest Enterprise entered into the following material transaction involving the non-executive Commissioners of the Forestry Commission:

Mr Tom Bruce Jones is a director of James Jones & Sons Ltd. which purchased approximately 387,000 cubic metres of timber at £6,846,000 from Forest Enterprise.

18 Losses Statement

Losses totalled £292,000 from 52 cases, including the write-off of two claims abandoned amounting to £113,000 and £112,000, with a further £61,000 paid in 26 special payments. This compares with losses totalling £77,000 from 60 cases with a further £118,000 in 38 special payments in 2000-01.

19 Financial Performance Measures

The financial performance measures set by the Forestry Commissioners for 2001-02 and the actual outturns achieved were:

	Achieved £000	Target £000
Operating deficit	8,312	3,900
Cash deficit	13,007	14,000
Gross receipts from sale of properties	5,537	2,300

Note 2b contains the target and actual rate of return for Forest Holidays.

Appendix 1

Accounts Direction given by the Treasury in accordance with Section 7 of the Government Resources and Accounts Act 2000

- 1 The Forestry Commission shall prepare accounts for Forest Enterprise of its activities in England for the financial year ended 31 March 2002 and subsequent years, comprising:
 - (a) a foreword;
 - (b) an income and expenditure account;
 - (c) a statement of total recognised gains and losses;
 - (d) a balance sheet;
 - (e) a cash flow statement;
 - (f) a statement of Accounting Officer's responsibilities; and
 - (g) a statement on internal control;

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

- 2 The accounts shall give a true and fair view of the income and expenditure, and cash flows for the financial year, and the state of affairs as at the end of the financial year.
- 3 Subject to this requirement, the accounts shall be prepared in accordance with:
 - (a) generally accepted accounting practice in the United Kingdom (UK GAAP);
 - (b) the disclosure and accounting requirements contained in "The Fees and Charges Guide" (in particular those relating to the need for segmental information for services or forms of service provided) and in any other guidance which the Treasury may issue from time to time in respect of accounts which are required to give a true and fair view;
 - (c) the accounting and disclosure requirements of "Government Accounting," as amended or augmented from time to time,

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

- 4 Clarification of the application of the accounting and disclosure requirements of the Companies Act and accounting standards is given in Schedule 1 attached. Additional disclosure requirements are set out in Schedule 2 attached.

- 5 The income and expenditure account and balance sheet shall be prepared under the historical cost convention modified by the inclusion of:
 - (a) the forest estate at its existing use value;
 - (b) land and buildings at their existing use value where a market exists, otherwise at depreciated replacement cost;
 - (c) machinery, plant and equipment at current replacement cost;
 - (d) commercial recreation assets at their existing use value; and
 - (e) stocks of seed at the lower of cost or net realisable value, stocks of plants and livestock at net realisable value and stocks of consumable materials at current replacement cost.

- 6 This direction shall be reproduced as an appendix to the accounts and supersedes that dated 21 March 2002.

David Loweth

Head of the Central Accountancy Team
HM Treasury
21 May 2002

Schedule 1

Application of the Accounting and Disclosure Requirements of the Companies Act and Accounting Standards

Companies Act

- 1 The disclosure exemptions permitted by the Companies Act shall not apply to Forest Enterprise unless specifically approved by the Treasury.
- 2 The Companies Act requires certain information to be disclosed in the Directors' Report. To the extent that it is appropriate, the information relating to Forest Enterprise shall be contained in the foreword.
- 3 The income and expenditure account shall be in a form which discloses the information described in paragraph 2 of Schedule 2, as the recommended formats described in Schedule 4 to the Companies Act are not appropriate for Forest Enterprise.
- 4 When preparing its balance sheet, Forest Enterprise shall have regard to the balance sheet format 1 prescribed in Schedule 4 to the Companies Act. The balance sheet totals shall be struck at "Total assets less liabilities".
- 5 Forest Enterprise is not required to provide the historical cost information described in paragraph 33(3) of Schedule 4 to the Companies Act.
- 6 The foreword and balance sheet shall be signed by the Accounting Officer and dated.

Accounting Standards

- 7 Forest Enterprise is not required to include a note showing historical cost profits and losses as described in FRS 3.
- 8 The cash flow statement shall be presented under the indirect method as described in FRS 1.
- 9 Forest Enterprise shall not adopt the Financial Reporting Standard for Smaller Entities unless specifically approved by the Treasury.

Schedule 2

Additional Disclosure Requirements

Foreword

- 1 The foreword shall, inter alia:
 - (a) state that the accounts have been prepared in accordance with a direction given by the Treasury in accordance with Section 7 of the Government Resources and Accounts Act 2000;
 - (b) include a brief history of Forest Enterprise and its statutory background.

Income and Expenditure Account

- 2 The income and expenditure account shall show, inter alia:
 - (a) under "operating income":
 - sales of timber;
 - other forest sales;
 - other activities.
 - (b) under "operating expenditure (by activity)":
 - harvesting and haulage of timber;
 - restocking after felling;
 - forest roads;
 - forest maintenance and protection;
 - other activities.
 - (c) the resulting operating surplus/deficit shall be shown as a separate heading;
 - (d) under "recreation, conservation and heritage":
 - income;
 - expenditure.

giving operating surplus/deficit net of recreation, conservation and heritage

 - (e) the surplus/deficit arising from the sale of properties and the notional cost of capital;
 - (f) the "net surplus/deficit for the year" which shall be transferred to the general fund.

- 3 Minor changes may be made to the headings in the accounts without the approval of the Treasury.

Notes to the Accounts

- 4 The Notes to the Accounts shall include, inter alia:
 - (a) details of the key corporate financial targets for the year and performance achieved against those targets for the year;
 - (b) details of the total income, expenditure and operating result for each of the operations shown within "other activities"; together with explanatory notes of the financial objectives set and performance achieved;
 - (c) an analysis of the total staff costs and numbers of employees engaged on Forest Enterprise activities and the relevant disclosure elements of the Greenbury Code.

Forestry Commission National and Conservancy Boundaries



Forest Enterprise Boundaries



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