

Scotland

Annual Report and Accounts 2002-03



The Forestry Commission in Scotland






The mission of the Forestry Commission in Scotland is to protect and expand Scotland's forests and woodlands and to increase their value to society and the environment.

The Vision

The Scottish Forestry Strategy is the Scottish Executive's framework for taking forestry forward, through the first part of the new century and beyond. The vision is that Scotland will be renowned as a land of fine trees, woods and forests which strengthen the economy, which enrich the natural environment and which people enjoy and value. High quality trees, woods and forests can help make Scotland a better place for people to live and work in and to visit. Increasing confidence in the future of forestry will encourage investment that will benefit current and future generations.

Strategic Directions

The Scottish Executive's Scottish Forestry Strategy gives us five strategic directions. They are:

-  to maximise the value to the Scottish economy of the wood resource becoming available for harvesting over the next 20 years;
-  to create a diverse forest resource of high quality that will contribute to the economic needs of Scotland throughout the twenty-first century and beyond;
-  to ensure that forestry in Scotland makes a positive contribution to the environment;
-  to create opportunities for more people to enjoy trees, woods and forests in Scotland; and
-  to help communities benefit from woods and forests.

The Forestry Commission in Scotland 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 Scotland.

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, always 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.

Annual Report and Accounts 2002-2003 for Scotland

Annual Report and Accounts 2002-2003 for Scotland
Laid before the Scottish Parliament by the Scottish Ministers
December 2003

In addition to this report to the Scottish Ministers on our activities in Scotland, the Forestry Commission provides a report to the National Assembly (about our activities in Wales) and to the Westminster Parliament (about our activities in England and about our activities that are funded at the Great Britain level, such as international policy).

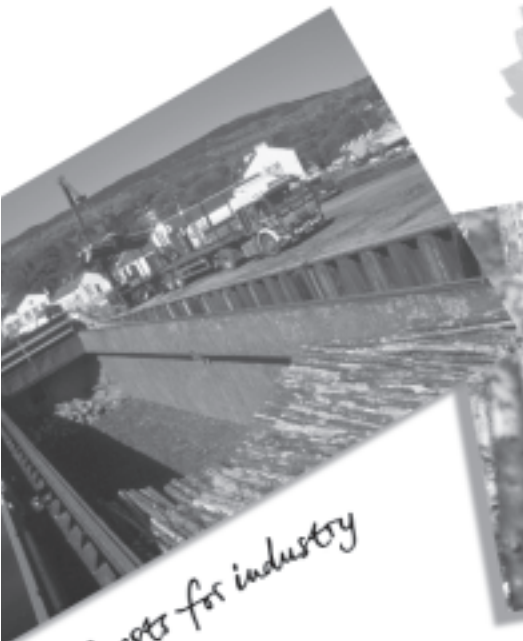
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“...changes will bring forestry closer to Scottish Ministers, closer to colleagues in the Scottish Executive, and closer to the people of Scotland.”

forests for freedom



forests for industry



forests for adventure

Foreword, Rt. Hon. Lord Clark of Windermere, Chairman

The year has seen a great deal of change, and the scene is set for Scotland to take a larger share in shaping the forestry future it chooses. Since my appointment, there has been continual review, with the Quinquennial Reviews of our Forest Enterprise and Forest Research agencies, and the Forestry Devolution Review itself. In agreeing the recommendations of the devolution review, the Forestry Ministers across the UK recognised that there is scope to work still more closely to agendas that are increasingly set country by country.

As an organisation we have transformed ourselves to reflect the changing needs of society, and we have again adjusted the way we work to meet the requirements of the day. At the close of 30 March 2003, Forest Enterprise, a GB agency of the Forestry Commission, ceased operating, and on 1 April, a single forest management agency started its existence as an agency of Forestry Commission Scotland. These changes will bring forestry closer to Scottish Ministers, closer to colleagues in the Scottish Executive, and closer to the people of Scotland.

In this period of review and change, I have been very glad to have the support and perspective of long-serving Commissioners, including Tom Bruce Jones and Andrew Raven. Tom was appointed CBE in the Queen's Birthday Honours, for services to forestry. Both Forestry Commissioners for Scotland had their appointments extended to 30 March 2003, to provide continuity and a smooth transition to the new arrangements following the implementation of the Forestry Devolution Review.

In amongst all this change the organisation has continued to deliver an impressive range of outputs, which are reflected in this report.

A handwritten signature in black ink, appearing to read 'David Clark', with a horizontal line underneath.

Lord Clark

“...Scotland now has more woodland than it has had since the days of Robert the Bruce.”

much more than the trees



forests for wildlife



*for walking, for rest,
and for peace and quiet*



Introduction, and highlights of the year, Chief Conservator

Delivering Executive forestry policy

The Forestry Commission in Scotland acts as the forestry department of the Scottish Executive, and is responsible to Scottish Ministers. It has a National Office for Scotland in Edinburgh and six regional Conservancy Offices. Towards the close of the year we prepared for the integration of the forest management arm of the Commission, which was previously exercised through the GB Forest Enterprise agency. In the appendices we have included charts of the organisation before and after the reorganisation, many elements of which were in place before the end of the reporting period.

Scottish Forestry Strategy and Scottish Forestry Forum

The Scottish Forestry Strategy is the chief policy document describing the priorities we need to focus on, to provide the kind of forests people have said they wish to have for the future. This report reflects the shift towards active delivery of these priorities.

About 150 people attended the first public meeting of the Scottish Forestry Forum, held on Tuesday 26 November at Battleby, Perthshire. Allan Wilson, Deputy Minister for Environment and Rural Development, introduced the Forum and the other speakers. All delegates were provided with copies of *Delivering the Scottish Forestry Strategy*, a report on progress to date. Appended to this document were details of indicators of progress, and baseline data against which to measure further progress. Delegates expressed enthusiasm for an annual event, with perhaps more scope for in-depth discussion.

One fundamental indicator is the area covered by Scotland's trees, woods and forests. Early in the year, on 18 April, Mr Wilson launched the National Inventory of Woodland and Trees for Scotland. Publication provided an opportunity to stress that our stock of trees, woods and forests continues

to expand, and that Scotland now has more woodland than it has had since the days of Robert the Bruce, a message which was well trumpeted by the media. The extent of tree cover is now 17%.

The Commission's main tools for delivering the Executive's forestry policy are direct management of the publicly owned national forests, working in partnership with others, and supporting sustainable forest management through the grant system. An important task, following publication of the Scottish Forestry Strategy, was a review of forestry grants.

At the Highland Show in June, Ross Finnie, Minister for Environment and Rural Development, announced that the Scottish Executive had accepted the recommendations of a Steering Group regarding changes to the Woodland Grant Scheme and Farm Woodland Premium Scheme in Scotland. Accordingly, the new Scottish Forestry Grants Scheme (SFGS) was launched in January.

Indicative Forestry Strategies and Locational Premiums

Mr Wilson launched the Ayrshire and Arran Woodland Strategy on 27 January. At the same time, he announced details of the SFGS Locational Premium for Ayrshire and Arran, designed to target priority areas identified in the Strategy. This Strategy received an award in the "development planning" category of 'Scottish Awards for Quality Planning 2002' from Social Justice Minister Margaret Curran MSP.

During the year Mr Wilson also announced the Northern Isles Locational Premium in response to woodland strategies prepared by Orkney and Shetland councils.

Introduction, and highlights of the year, Chief Conservator (continued)

New Indicative Forestry Strategies have now been finalised for Argyll, Ayrshire, and Moray; Highland is at consultation stage; and work is under way for new or revised strategies for Aberdeenshire and Aberdeen City, the Central Scotland Forest, Perth and Kinross, and Stirling.

Wider context

Timber transport

The Timber Transport Forum, chaired by Forest Enterprise Operations Director Ian Forshaw and including representatives from across the industry and from local authorities, met on 7 May. Following an introduction by Mr Wilson, about 80 delegates heard presentations dealing with the work of local timber transport groups, innovative road engineering solutions, the potential for using rail and sea links, the code of practice for roundwood haulage, and community issues.

Reference is made elsewhere in this report to Mr Wilson's meeting on 8 January with representatives of the Convention of Scottish Local Authorities and the forest industries to discuss timber transport, and to other timber transport initiatives.

Treefest Scotland 2002

Few could have foreseen the impact of Treefest Scotland 2002. At its height this celebration of Scotland's trees, woods and forests captured more than 800 events throughout Scotland ranging from simple school-based activities to internationally recognised events such as the World Logging Championships in Lockerbie. Many events brought forestry to a new, urban audience: examples were the Scottish Wood Fair in Perth, and Tree in the Park in Strathclyde. Many events built new and lasting relationships among organisations and individuals throughout the country. Projects such as Heritage Trees of Scotland have provided a new and lasting record of Scotland's most famous and interesting

trees and proved that we have much to celebrate in our woodland history and heritage. The Treefest partnership continues, beyond the reporting period, to support new and innovative projects throughout Scotland and will prove once more to be a valuable tool in engaging with the people of Scotland.

Health and well-being

Health and Well Being: Trees, Woods and Natural Spaces was the title of a successful seminar held in Dumfries on 19 June at which there was general recognition of the value of trees, woods and natural spaces in terms of health and well-being. This extends beyond physical exercise to, for example, the social value of promoting interaction and providing opportunities for people to work together on community projects. A local general practitioner also spoke of the importance of helping to sustain prosperity in an area as one of the routes to health and well-being.

National Parks

Through the development of the Loch Lomond and The Trossachs Local Woodland and Forestry Framework, we worked with the National Park Authority and other partners to chart the way in which forestry can best contribute to the aims of the National Park. The Park Authority consulted on the draft framework in November 2002 with the intention of agreeing and publishing the final version in the autumn of 2003. Subsequently, the Framework is expected to form part of the overall National Park Plan.

We also continued to invest in developing the recreation infrastructure and management of the national forests via the EU ERDF projects for Argyll Forest Park (£1.6m) and Queen Elizabeth Forest Park (£1.4m). It is pleasing that the Cowal and Trossachs Forest District (of what was then Forest Enterprise) was awarded the John Kennedy Trophy

by the Royal Highland and Agricultural Society for its work in developing the Queen's Jubilee Pinewood near Aberfoyle. The pinewood came first in the large woods section in the Royal Highland and Agricultural Society's Scotland's Finest Woodlands award scheme.

On 15 July Peter Peacock, Deputy Minister for Finance and Public Services, officially launched a new, three-kilometre path connecting the low-level woodland trails in Glenmore Forest Park to the upland path network in the Cairngorms, within the proposed Cairngorms National Park. The new link is part of a project to allow walkers to reach the Cairngorms from Aviemore on pedestrian paths, without having to walk alongside traffic on the busy main road.

Land reform and access

Part 1 of the Land Reform (Scotland) Act 2003 provides for a right of responsible access to land and water, in accordance with the Scottish Outdoor Access Code. The Code will describe what responsible behaviour means for land managers and those exercising the right. Commission staff have worked closely with colleagues in SEERAD and Scottish Natural Heritage (SNH) to pass on lessons from long experience of operating an open access policy in Scotland's national forests. During the preparation of the legislation such issues as liability, health and safety and commercial activities drew a good deal of discussion, and through the work of the Access Forum the Commission contributed to formulating the SNH consultation, which began in March 2003.

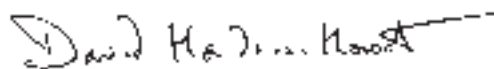
Forest Enterprise hosted a visit to a harvesting site by officials (from SNH, SEERAD and from the Health and Safety Executive), so that they could gain a proper appreciation of health and safety-at-work implications of access on a harvesting site.

Parliament

The Scottish Parliament held two debates on forestry. On 30 May there was a short debate prompted by a motion put forward by Alex Fergusson MSP (at that time Convenor of the Rural Development Committee). He had asked the Parliament to acknowledge the value of timber as a primary product within rural Scotland and to recognise the very real difficulties faced by some rural local authorities in maintaining and approving minor roads for timber extraction. The MSPs who took part in the debate spoke positively about forestry's contribution to the rural economy.

An Executive-led debate on Scottish forestry took place on 7 November. The motion highlighted the importance of the Forestry Devolution Review and the Scottish Forestry Grants Scheme in taking forward implementation of the Scottish Forestry Strategy. During the debate there was general support for the Strategy, but also concern that insufficient resources were being devoted to its implementation. Particular issues included timber prices, timber transport, the use of wood for fuel, community ownership of woodlands, and dispersal of Forestry Commission jobs from Edinburgh to other parts of Scotland.

The Commission gave evidence to the Rural Development Committee's inquiry into integrated rural development. Questions on forestry included community involvement, timber transport, deer, tenants' rights to plant trees, and changing patterns of forestry employment.



David Henderson-Howat

“The Commission’s main tools for delivering the Executive’s forestry policy are direct management of the publicly owned national forests, working in partnership with others, and supporting sustainable forest management through the grant system.”



Maximising the value

Scottish Forest Industries Cluster

The Director-General and Chief Conservator contributed to the work of a multi-disciplinary team that visited New Zealand to learn lessons that could be applied to the forestry and wood-processing industry in Scotland. The results from this visit were discussed at the Cluster Conference at the end of March, and a report of the visit is also available on the Cluster website (www.forestryscotland.com/). Key messages included:

- 🔗 continuing price vulnerability in commodity markets, with supply likely to grow faster than demand;
- 🔗 the need to identify opportunities for developing specialised markets for wood products;
- 🔗 the need to keep abreast of new developments (for example, in bio-materials engineering);
- 🔗 useful parallels between the New Zealand Transport Fund and the ideas for the Strategic Timber Transport Fund in Scotland;
- 🔗 the need to ensure effective development of skills and training at all levels within the industry to maintain competitiveness.

Timber transport

Mr Wilson met representatives of the Convention of Scottish Local Authorities (CoSLA) and the forestry industry on 8 January to discuss timber transport. A proposal was put to the Minister for the establishment of a Scottish Timber Transport Fund. This would provide a source of funds for developing best-value projects most suited to tackling timber transport problems in particular circumstances (including, for example, improvements to public roads and improvements to internal forest roads where there could be wider benefit). The Minister asked the Forestry Commission to help CoSLA

and the industry to work up the idea through the Timber Transport Forum Steering Group to produce a cost-benefit appraisal.

To encourage the spread of best practice and the exchange of ideas, the Commission co-funded the Timber Transport Forum's employment of a Timber Logistics Officer and the Argyll Timber Transport Group's Project Officer.

Maps for agreed routes have now been published for Argyll, Ayrshire, Dumfries and Galloway, Grampian, Highland, Scottish Borders, Stirling, and Tayside. (Maps of agreed routes for Argyll were also published in April 2003.) A Local Area Modelling Assessment is being prepared for South-West Scotland, and others are being commissioned for the Scottish Borders and Grampian.

Although most of the attention is on roads, the use of sea transport is still growing. There is now a significant export flow of pulpwood from the ports of Buckie and Montrose in the North East.

Plans continue to be developed for a railhead at Barrhill. Also in the South West, the Scottish Executive made a Freight Facility Grant (FFG) of £158,000 available to English, Welsh and Scottish Railway Ltd (EWS) to help redevelop its Beattock Sidings site in Dumfries-shire. This grant will help EWS re-open the facility to allow the transport of timber by rail from local forests. In addition, the Executive has awarded Track Access Grants to EWS for two projects. One, of £143,000 over three years, is for a project to move timber from Kinbrace in Sutherland; and the other, of £766,000 over three years, is for timber transport from Fort William and Arrochar.

Maximising the value (continued)

The Strategic Rail Authority announced its intention to pull back from rail freight, freezing the grants that transfer goods from lorries to trains. The Scottish Executive has its own budget for this purpose, but the loss of projects jointly funded with England could have serious implications for timber transport by rail.

Following the establishment of the Timberlink timber shipping service in the Greater Clyde, 107,000 tonnes of timber were shipped from Mid-Argyll and Kintyre to Ayrshire during 2002. This represented a saving of 850,000 lorry miles.

Over the past two years our civil engineers have been working in partnership with Highland Council to find innovative, low-cost solutions to the problems of hauling timber on the narrow, single-track section of the B871 road between Syre and Kinbrace. Another project (Roadex II) funded by the EU Northern Periphery Programme, which includes public and private-sector partners from Norway, Sweden, Finland and Scotland, monitors and reports on the condition of this road.

A third project, supported by EU Objective 1 Area funding, supported by Scottish Executive Freight Facilities Grant, included the construction of a loading bank alongside the main Inverness-to-Wick line at Kinbrace, which allows timber to be stockpiled for loading on to timber wagons. The timber is then transported to Inverness during the night while the line is free of passenger trains. The first load of timber arrived in Inverness on 15 August. Over the next 20 years an estimated 15,000 tonnes of timber per year will be harvested from forests in Strathnaver, all of which will be moved by train. Each train will carry about 500 tonnes.

Timber promotion

We continued to work with industry to develop the market for wood products by means of promotion and research. Timber promotion is carried out through the actions of our market development officer working closely with partners, and through our support of the *wood. for good.* campaign.

For the first time, the Forestry Commission and the industry promoted a joint forestry pavilion at the Royal Highland Show. In this, Stewart Milne Timber Systems provided the skeleton of a four-room, timber-frame house. The softwood industry provided the frame, and the hardwood industry was represented through external cladding, flooring, furniture and other artefacts. In addition we supported Carpenter Oak and Woodland Company in the sawing and construction of an oak 'Forester's House' over the period of the show, as an outdoors adjunct to the joint display. The house was sold on the first day of the show!

Small-scale harvesting

In association with Treefest, a one-day workshop on small-scale harvesting was held on 12 June at Luss Estates on Loch Lomondside. The event attracted delegates from as far afield as Caithness and the Borders. They discussed techniques of management for ancient native woodlands, construction of tracks, different extraction systems, ways of adding value, marketing, and safety and training.

Hardwoods

We co-funded a contract awarded in May to consultants to develop a simple visual grading system for sawn hardwood boards or planks, in conjunction with the small-scale hardwood processing sectors in the UK and Ireland, to help them meet customers' needs. The research showed a great demand for such an output, particularly from specifiers, requiring a slight change of focus from the initial objective of the project. Our co-funders spanned the British Isles.

A study of 24 businesses to assess the growth of the Scottish hardwood processing sector between 1996 and 2002 reported that:

- 🔧 50% of the businesses saw their profitability increase, with 37.5% staying the same;
- 🔧 62.5% had invested capital in their business amounting to £735,000;
- 🔧 there had been a net gain in employment of 9.5 jobs in these 24 businesses;
- 🔧 83% of the businesses had increased their consumption of hardwood sawlogs; and
- 🔧 75% felt that the major influence on their businesses has been the change in markets for their products and services, specifically, increased demand for flooring and house-building material.

In conjunction with Robert Gordon University and with funding from the Engineering and Physical Sciences Research Council, two new publications have been produced to support the Scottish hardwood processing industry: *Scottish Hardwood Flooring* and a technical leaflet entitled *A guide to the installation and maintenance of solid hardwood flooring*.

Continuing professional development

A wide range of events were arranged to promote timber, including a series to support Continuing Professional Development of architects and surveyors, and also suitable for other specifiers. Some 115 architects and surveyors were attracted to the event on 10 May in Perth entitled *Timber Cladding and Buildings in Scotland*; 56 attended another on 18 June in Glasgow, 17 attended another on 27 September at Barony College, Dumfries, and 29 attended the event in Stirling on 18 March 2003.

The major event was the *Timber and the Built Environment* conference, held in Edinburgh on 17 and 18 October, which attracted about 180 architects, specifiers and timber industry representatives. It was organised in conjunction with Historic Scotland, the Royal Incorporation of Architects in Scotland, and colleagues in the Development Department of the Scottish Executive. We contributed by leading one of the field days, hosted by Tay Forest District, Carpenter Oak and Woodland, and the Proctor Group.

Scottish Woodfair

As part of Treefest, we promoted other events more widely. The Scottish Woodfair in Perth on 10 and 11 May promoted more than 30 wood-processing businesses in Scotland to professionals and the general public.

We also contributed to the *Fine Scottish Furniture Exhibitions* in Inverary Castle, Argyll, and the National Galleries of Scotland's Duff House Country Gallery in Banff over the summer.

Maximising the value (continued)

Timber cladding

A €1million project was approved as part of the EU Northern Periphery Programme to carry out research into external timber cladding in maritime conditions over three years. A major element of the project is to assess the suitability of Scotland-grown Sitka spruce for external cladding, and it brings together a range of Scottish, Norwegian and Faroese partners. Discussions are under way to explore how potential partners in Iceland could be involved in the project. Within Scotland we have been working with Highland Council, the Forest Industries Cluster Group, Highlands and Islands Enterprise, James Jones and Sons Ltd, BSW, and colleagues in the Scottish Executive. At the end of the year, negotiations over research contracts were under way with the Building Research Establishment, Forest Research, and the Centre for Timber Engineering.

Centre for Timber Engineering

The Centre for Timber Engineering was opened on 17 January 2003 by Iain Gray, then Minister for Enterprise and Lifelong Learning. The Centre has been established through a partnership initiative led by the UK sawmilling industry, the Forestry Commission and Scottish Enterprise. It will have a key role in re-introducing education in timber engineering within structural engineering courses at technical, graduate and post-graduate levels, exploiting the university's already strong experience in the preparation of distance learning materials and modular teaching. The Centre is already expanding its research capability.

Wood-fuel

In the more rural areas of Scotland, interest in the use of wood as fuel has encouraged the formation of a fuelwood group in the Highlands, and a successful conference on fuelwood was held at Kinlochleven, with a strong community focus. The North East Forest Industry Group also held two meetings on the topic. At the end of the year we were investigating the possibility of installing a woodfuel heating system in one of our offices. One of our staff focused on wood-fuel during a secondment to Austria, which is currently understood to meet 14% of its energy needs from wood.

Future forest resource

Review of Woodland Grant Scheme and Farm Woodland Premium Scheme

Following publication of the Scottish Executive's Scottish Forestry Strategy, 'Forests for Scotland', the opportunity was taken to review the Woodland Grant Scheme and the Farm Woodland Premium Scheme, the main forestry support schemes operating under the European Union's Rural Development Regulation and the Executive's Rural Development Plan for Scotland. This was seen as an opportunity to develop a distinctive Scottish focus for forestry delivery in Scotland that would be fully integrated with other land uses. A steering group, involving external representatives of forestry, agricultural and environmental organisations, reported broad recommendations to Scottish Ministers in May 2002.

Amongst the key changes agreed were:

- 🌱 closer links with policy priorities, including perceived public benefits;
- 🌱 allowing scope to target grants in priority areas, or for priority purposes as identified in strategic and regional documents;
- 🌱 more effort to be focussed on management of existing woodland (including restocking) as opposed to new planting, recognising funding constraints;
- 🌱 a more integrated approach, in relation to other grant schemes (such as the Rural Stewardship Scheme);
- 🌱 assisting with the costs of deer management, particularly in the light of increasing deer densities and constraints on use of deer fencing; and
- 🌱 supporting rural development and community involvement in forestry.

The Scottish Forestry Grants Scheme

The resulting new scheme – the Scottish Forestry Grants Scheme (SFGS) – will encourage the creation and management of woods and forests to provide economic, environmental and social benefits now and in the future.

Grants are available under three main areas:

- 🌱 grants for woodland expansion: creating new woodlands;
- 🌱 restocking grants, for replanting after felling; and
- 🌱 stewardship grants for a range of activities in existing woodlands.

The new Farmland Premium replaces the former Farm Woodland Premium Scheme, offering annual payments for either 10 or 15 years.

Grant options and structure

Planting grants are available for the following five themes:

- 🌱 establishing well designed productive woodland;
- 🌱 expanding the area of native woodland, preferably through natural regeneration and the development of Forest Habitat Networks;
- 🌱 improving riparian habitat;
- 🌱 improving the quality and setting of urban or post-industrial areas; and
- 🌱 improving the diversity of the farmed/crofting landscape.

Restocking grants are based upon the same five themes.

Future forest resource (continued)

New planting and restocking grants are based on the standard costs of:

- 🌱 ground preparation;
- 🌱 protection; and
- 🌱 establishment.

Stewardship grants are available for the following eight themes:

- 🌱 improving the economic value of woods and forests by improving timber quality;
- 🌱 reducing deer numbers;
- 🌱 improving the ecological value of native woodlands;
- 🌱 improving the ecological value of other woods and forests;
- 🌱 enhancing the landscape and cultural heritage value of woods and forests;
- 🌱 developing alternative silvicultural systems to clear felling;
- 🌱 improving the social value of woods and forests by developing facilities for informal recreation; and
- 🌱 improving the social value of woods and forests through community initiatives.

Grants are based upon standard costs and specifications, with grants paid at either 60% or 90% of standard costs depending upon the resulting degree of public benefit.

Following approval by the EU of the necessary amendments to the Scottish Rural Development Plan, the SFGS was announced – and transition arrangements launched – on schedule on 24 January. We then held a series of technical seminars for woodland owners and their advisers in different parts of Scotland in March.

The SFGS promotes expansion and restocking as well as stewardship of existing woods. The Farmland Premium replaces the Farm Woodland Premium Scheme, and will, like the FWPS, be administered by SEERAD. The WGS's Better Land Contribution of £600 per hectare has been discontinued, and the savings of about £1.5 million per year will be diverted into the locational premiums, which are linked to priority areas in local authorities' Indicative Forestry Strategies. We launched locational premiums for the Central Scotland Forest, Grampian Forest, Ayrshire and Arran, and the Northern Isles (where there is a good deal of enthusiasm for very small-scale planting, but where costs are often higher than elsewhere).

We introduced transitional arrangements, in part to allow restocking (which does not require EC approval) to benefit from higher SFGS rates during the spring planting season, and to give owners the option of transferring to SFGS for new planting carried out during this period. This was put in place to minimise any downturn in planting in the spring of 2003 arising from owners anticipating the introduction of SFGS. A decline in the levels of new planting for 2001-02 and 2002-03 is related to the legacy of inactivity necessitated by Foot and Mouth Disease control measures, combined with ongoing uncertainty by farmers and landowners regarding the implications of CAP reform.

On 4 March, the Parliamentary Rural Development Committee considered the Statutory Instrument that had been laid before Parliament to implement the Farmland Premium element of SFGS. (The new scheme subsequently opened for applications on Monday 16 June 2003.)

Challenge funds and locational premiums

About £1.6 million was awarded under the Central Scotland Forest Challenge Fund to help create 18 new woodlands comprising a total of 638 hectares in the Central Scotland Forest. Since 1998 a total of £6 million has been awarded to help create more than 2,700 hectares of new woodlands in Central Scotland. A new locational premium under the SFGS was announced during the year to help establish further new woodlands within the Central Scotland Forest.

The Grampian Forest Challenge Fund has also now closed. In the final round, approval was given for 762 hectares, at an average grant of £2,220 for each hectare. About £7 million has been awarded and just over 3,400 hectares established since the challenge fund was launched in 1997. Details of the new locational premium under the SFGS were announced to the Grampian Forest Forum, paying £1,500 per hectare on top of standard SFGS grants for qualifying schemes of between 10 and 30 hectares.

Timber quality of Scots pine

During the year discussions were held among interested parties, including the Forestry Commission, Cairngorms Partnership, Building Research Establishment and Forest Research, about Scots pine timber quality and the development of an inventory of Scots pine. At the end of the year a proposal was beginning to take shape, and partners intended to put forward a bid to the EU Northern Periphery Programme during the following year, once the match funding for the project has been assembled.

Protecting trees and forests

The Forestry Commission maintained a substantial investment in research to manage the insect pests *Hylobius abietis* (large pine weevil) and *Hylastes* spp. Uncontrolled, these pests are capable of killing young trees on replanted sites in such numbers

that successful restocking becomes extremely difficult and expensive. Research has been driven by the wish to reduce reliance on chemical pesticides and, ironically, to find a replacement for the currently used permethrin-based products in time for the withdrawal of permethrin from the European plant protection market in 2003. Work by Forest Research on an “integrated forest management” approach to reduce reliance on insecticides saw achievement of some important milestones in producing a management support system to help forest managers to reduce risks from the insects. Results from the third year of insecticide trials by the same team made crucial advances in demonstrating the efficacy of alpha-cypermethrin as an alternative to permethrin.

Actions have also been taken with colleagues in SEERAD and Defra to prevent introduction and establishment of the fungal pathogen *Phytophthora ramorum*.

Colleagues in the Scottish Executive published a research report on *The Effectiveness of Tree Preservation Orders in Scotland*. A number of proposals were put forward for fine-tuning the existing Tree Preservation Order (TPO) system. These included publication of a booklet describing procedural, legal and technical aspects; better use of Geographic Information Systems to maintain up-to-date information about TPOs; and the re-establishment of a Scottish Tree Officers' Group to exchange best practice.

Deer

We continued to work closely with the Deer Commission for Scotland (DCS) to tackle deer issues. As well as the bespoke stewardship grant within the SFGS for controlling deer numbers, we shared intelligence with DCS on areas of concern through the Deer and Forestry Liaison Group.

Future forest resource (continued)

A number of sites have been identified in which deer pressures are a potential long-term issue and these will be reviewed in order to assess whether the damage becomes unacceptably high.

A concordat to describe how partners will work together was signed on behalf of the Association of Deer Management Groups, DCS, Forestry Commission Scotland and SNH in January.

Through Forest Enterprise we worked with the private sector to introduce an agreed venison quality assurance scheme to help promote venison marketing. (The Quality Assurance Scheme was launched at the Royal Highland Show in June 2003).

Making a positive contribution to the environment

Biodiversity

When the draft Scottish Biodiversity Strategy was presented to the Minister at the Scottish Biodiversity Forum on 25 February, several speakers welcomed the work done to take forward the biodiversity agenda within the forestry sector. The work has many different strands. These include specific work for individual species, work on habitats, and work directed at integrating forestry with the wider landscape and land uses of Scotland to take a more holistic approach to enhancing our biodiversity and making a positive contribution to the environment. We continued to lead the implementation of the Species Action Plans for the Scottish wood ant and Wilson's pouchwort, and fulfilled relevant actions in other Species Action Plans.

Action for species

Working with the RSPB and colleagues in SEERAD and SNH, we started work on the £4.5 million EU LIFE project to help reverse the serious decline in Scotland's capercaillie population. The main causes of decline have been climatic (a series of wet springs) and a reduction of the extent and quality of suitable habitat. These factors have reduced successful transition from chick to adult to the point where predation and collisions with fences can have a disproportionate effect on survival rates. Much work has already been carried out to reduce the impact of fence collisions. The LIFE project continues this and also supports a comprehensive range of other conservation actions, awareness raising and research.

Other woodland grouse have suffered decline too, and in partnership with RSPB, SNH and Scottish Power, we established a Black Grouse Recovery Project in Argyll, and jointly funded a new project officer post. The project has identified all remaining lek sites throughout Argyll and now seeks to implement a broad range of habitat improvement works aimed at preventing any further decline in the population.

In partnership with SNH, a project was commissioned to complete the 'Identification of Priority Woodlands for Red Squirrel Conservation' across Scotland. This complements work completed in Dumfries and Galloway and the Scottish Borders and the review of the "Scottish Strategy for Red Squirrel Conservation" being undertaken by the Scottish Squirrel Group. This group, co-chaired by the Forestry Commission and SNH, acts as a forum for the local red squirrel conservation groups in Scotland. We also established a Highland Red Squirrel Group, in partnership with Highland Council and Scottish Wildlife Trust, to match efforts being applied elsewhere. However, the absence of grey squirrels in the Highlands means that a different focus is required and the UK Red Squirrel Group were invited to visit the Highlands in order to gain a different perspective on red squirrel conservation. Each of the local squirrel groups is contributing to the national and local Biodiversity Action Plans for the species.

Targets for Native Woodland Habitat Action Plans

We published indicative native woodland Habitat Action Plan targets for local Biodiversity Action Plans and Indicative Forestry Strategy areas, as a paper in Scottish Forestry Vol. 56 (2) in summer 2002. Working with partners at national and local levels, we continued to lead the implementation of Habitat Action Plans for key native woodland habitats: native pinewoods, upland oakwoods, upland mixed ashwoods and wet woodlands. We also assisted with the plan for lowland wood pasture and parkland, and provided progress reports on the named species. In association with SNH, we provided a pilot training course, for woodland officers and operations managers on the monitoring of semi-natural woodland. The need for further development and provision of training is being considered.

Making a positive contribution to the environment (continued)

Forest habitat networks

We continued to work with SNH to develop our approach to extending links between old and new areas of woodland to form a more continuous woodland cover than we have at present. In this way we should integrate forests and woodland into the overall landscape, and gain from an holistic approach. By the end of the year a publication and seminars were planned to disseminate ideas during the next reporting period. (Subsequently, we and SNH jointly published *Habitat networks for wildlife and people: The creation of sustainable forest habitats*, and held seminars in June to promote the concept.)

Catchment management

We have helped in the development of catchment management plans through involvement in partnership projects. In Grampian and Highland we led on liaison (in respect of the woodland issues) for the Spey Catchment Management Plan, which went out to consultation in the autumn. At the end of the year, the final plan was in preparation (and was subsequently published on 23 June 2003). The Annan catchment co-ordination plan was published in the summer, and the Dee-Ken plan consultation closed at the end of February 2003.

Work continued on catchment management planning in the River Enrick catchment near Loch Ness. The process, facilitated by Forest Enterprise, involved a high level of public participation. An integrated Catchment Management Plan is now in place.

Farm woodlands

We continued to work with Perth & Kinross Council, NFU Scotland, and colleagues in SEERAD in support of the Breadalbane Farm Forestry initiative. Partnership funding was secured from key partners, and a business plan was prepared before the end of March 2003. (Subsequently Ruth Anderson was appointed as project officer for three years).

Blanket bogs

We continued to implement the five-year, EU LIFE project that began in April 2001 on the Restoration of Blanket Bogs in Caithness and Sutherland. The aim is to review the balance between forests and bogs, and one output will be a broad strategy that will help to guide future activity.

Continuous-cover forestry

In developing the SFGS, we made provision for supporting continuous-cover forestry through one of the stewardship grants. In addition, Buccleuch Estates kindly hosted an SFGS technical seminar on continuous-cover forestry in Lothian and Borders Conservancy. In the national forests we have continued to use Forest District Strategic Plans and Forest Design Plans to establish large-scale trial study areas for alternatives to clear fell.

Renewable energy

Initial interest from windfarm operators wishing to develop sites in the national forests is now being translated into detailed designs. Notable proposals include those for the An Suidhe, Inverliever, Black Law and Whitelee sites, all of which are the subject of planning applications. The combined generating capacity of these projects amounts to approximately 200MW.

Scottish Power gained planning consent for the Cruach Mhor windfarm in Argyll and has taken entry under a lease guaranteeing a substantial initial payment, with long-term rental income for Forestry Commission Scotland. Our work in support of Scottish Executive's policy to expand energy generation from renewable resources is gaining pace, and now encompasses wind, hydro and wood fuel. We expect further fruitful developments in the coming years.

Native woodland

Organisations change and adjust as they mature, and in response to changes in expectations. Over the past couple of years there has been considerable change amongst the native woodland initiatives. Highland Birchwoods has been restructured and substantially changed its role, and the North Highland Forest Trust has been established. Other initiatives that we support and which have a particular focus on native woodlands include the Grampian Woodlands Company, Central Scotland Forest Trust, Cree Valley Community Woodlands Trust, Southern Upland Partnership and Scottish Native Woods. The latter has remained intact and relatively unchanged. On the other hand, Tayside Native Woodlands has ceased operating, but a number of its functions are being picked up by other partners with Forestry Commission support.

Ross Finnie, Minister for Environment and Rural Development, visited Highland Birchwoods in the Black Isle on 22 August. Mr Finnie announced that, following a review, it was clear that the organisation had made a tangible contribution to integrating the environmental and economic values of forests, and that for the future it should also play a greater role in fostering community interest in forestry. The Minister also launched the website www.scotlandswoods.org.uk for the new, Scotland-wide inventory of semi-natural woodland and trees, which had been a Millennium Forest for Scotland project. Mr Finnie showed particular interest in work related to the development of wood-fuel.

Through Forest Enterprise, we continued to develop work with the Scottish Forest Alliance, through which energy services company BP is supporting native woodland expansion projects on sites managed by the Commission, the Woodland Trust Scotland and the RSPB.

Forest Enterprise progressed four major projects during the year with £1.9 million of BP funding. New native woodland planting began at a 500 hectares site known as Darroch Wids in Clashindarroch Forest in Aberdeenshire. Planning began for more than 650 hectares of new native woodland establishment scheduled over the next five years as part of a 74 square kilometres, estate-wide ecological restoration project in the Kinloch Hills on Skye.

A native woodland regeneration programme began on three hectares of a former experimental high-elevation site above Coire Na Ciste in Glenmore Forest Park, where we removed non-native species by helicopter. In addition, work continued to remove non-native species and control deer throughout the 1460-hectare project area of Glenmore Forest Park to allow native species to regenerate. The three-kilometre Allt Mor Trail, popularly known as “The Long Walk In”, was completed, connecting low-level woodland trails in Glenmore Forest Park to the upland path network, the Coire Cas car park, the Cairngorm Mountain ski lodge and the funicular railway base station on the higher slopes of the Cairngorm mountains. Of the £120,000 cost, £25,000 was contributed by BP, highlighting a commitment to providing community benefits from Alliance projects.

Further south, we bought 55 hectares at Crossrig Farm, near Caldercuix in North Lanarkshire, adding to an existing, 86-hectare community woodland scheme on the adjacent Drumbow site that was already being supported by BP through the Alliance. Work also began on preparing a design plan.

Making a positive contribution to the environment (continued)

Developing the Geographic Information System known as 'Forester', Forest Enterprise piloted the extension of environmental data-sets about species and habitats in Fort Augustus Forest District. This involved working with partners to enhance management decisions, evaluation and reporting on the contribution towards the Biodiversity Action Plan. The fieldwork in the Fort Augustus trial is under way, and results were encouraging. We have entered into discussions with SNH about sharing data.

International involvement

On the international scene, the Forestry Commission was one of the lead partners in the Third European Mountain Convention, which was held in Inverness on 16-18 May. The Conference focused on Rural Development. Michel Barnier (EC Commissioner for Regional Policy) attended and was taken on a field visit including a look at forestry around Loch Sunart. The role of forestry was given a high profile at the convention, including a workshop on *Forests and Forestry in Mountain Rural Development*. At the workshop the Chief Conservator announced on behalf of Forestry Ministers that the UK Government would be signing resolution S4 ("Adapting the Management of Mountain Forests to New Environmental Conditions") at the fourth Ministerial Conference on the Protection of Forests in Europe, in Vienna. Further afield, we also contributed through the work of the UK Forest Partnership for Action, to preparations for the World Summit on Sustainable Development at Johannesburg (26 August – 4 September).

Creating more opportunities for people to enjoy trees, woods and forests

Woods in and around towns

We are continuing to develop our ideas following the conclusion of a joint project with SNH entitled *Woods in and around towns*, looking at the quality of woodlands and wooded space in and around our towns. A conference on urban forestry was planned for the next reporting year (October 2003) and the results will feed into our future policy advice to Ministers. (ETWF1)

Open access recreation

Work on the development of a package of information and advice to support private owners in welcoming visitors to their woodlands was postponed until the Scottish Outdoor Access Code was agreed. The package will build on the existing Walkers Welcome scheme in line with the Land Reform (Scotland) Act 2003, and the need to support rural development through tourism. (ETWF1)

We have continued to discuss with local access officers and interested parties, opportunities for woodlands to contribute to access networks and strategies in areas close to towns, and also in rural areas where forestry could make a larger contribution to tourism. (ETWF1, ETWF3)

Our website continues to be popular as a source of information about where to go and what to do for forest recreation, and our network of publishers ensures that comprehensive and up-to-date information on recreation opportunities is provided with links to other relevant websites, (such as tourist-related ones). Our website now also includes more information on the management of wildlife, including species, habitats, and places to watch wildlife in the national forest lands.

There are more than 10,000 pages and 6,000 pictures on the website, as well as about 1,000 PDF documents, each consisting of several pages. Consumer feedback has consistently been very positive. When the site was redesigned two years

ago about 140,000 pages per month were being viewed. This figure more than doubled in a few months with the redesign, and the site's popularity continues to grow. The number of hits on the website increased from 377,000 pages a month in July 2002 to more than 1,000,000 in June 2003.

The website is managed by a team operating across England, Scotland and Wales. The team implemented new content management systems and trained and supported the 100+ publishers who provide the site content. Alongside these core tasks, the team also ensures that the Commission's website is aligned with Government guidelines and frameworks. Recently, a new area called "Wild Woods" was launched on the website. This attractive area allows the public to discover where they can go to see wildlife, describes our woods and forests with regard to what to see, and gives expert information about species and habitats. (ETWF2)

Treefest Scotland 2002

The Commission took a leading role in, and contributed key core services to, this year-long celebration of Scotland's trees, woods and forests. It was widely supported by volunteers, as well as the private and public sectors, and attracted huge support.

On 21 March 2002, in the previous reporting period, Ross Finnie launched the *What's On* guides. This was followed by local launches and, in all, more than 800 events held across Scotland. Also in March, Forestry Minister Allan Wilson launched "Heritage Trees of Scotland", an Internet promotion led by the Commission to find and record Scotland's most special and remarkable trees. This drew a particularly pleasing public response during the year, so that as the reporting year ended we were working with the Tree Council and SNH to follow it up by publishing a book about Scotland's 100 most special trees.

Creating more opportunities for people to enjoy trees, woods and forests (continued)

A Treefest display in the Scottish Parliament on 18 April resulted in more than 80 MSPs taking away Treefest information packs, and several MSPs, including First Minister Jack McConnell, took time to talk about Treefest with the representatives.

Other high-profile Treefest events included: the launch of the Treefest Watching Woodland Wildlife leaflet on May 2, to promote the best places in Scotland to observe woodland wildlife in its natural habitat; the Scottish WoodFair in Perth on 10 and 11 May, showcasing Scottish wood and wood products; and the launch by Forestry Minister Allan Wilson of *Scotland's Favourite Trees* on 13 May, which invited the public to nominate their favourite tree in Scotland to a special section of the Treefest website.

A successful Edinburgh Treefest event was held in central Edinburgh's Inverleith Park over the weekend of 15 and 16 June. A Treefest exhibition of paintings depicting trees and the landscape was held at the National Galleries of Scotland's Duff House Country Gallery in Banff in conjunction with a series of lectures.

Two flagship events took place in September. "Tree in the Park" in Hamilton, Lanarkshire, attracted more than 20,000 people. The International Forest Fest organised by the forest industries, was opened by HRH The Princess Royal and attracted about 12,000 people, including many school parties, as well as the trade and professionals. Mr Wilson spent a day there, launching the Dumfries & Galloway Timber Transport Agreed Routes Map during his visit. It was decided not to repeat the full Treefest series of events in 2003, but to build on its success by maintaining the brand and website as vehicles for continued promotion of Scotland's trees, woods and forests and related events. We will support individual Treefest events where partners wish to run them, and produce Treefest leaflets where there is local demand.

Forest recreation and tourism

We worked with VisitScotland and other partners in the tourism industry to further forestry's contribution to tourism, by addressing the priorities identified in the Tourism Framework for Action supporting the National Tourism Strategy. We continued to work with other partners in taking forward the £1.8 million "Perthshire: Big Tree Country" project as an exemplar of co-operative working between forest managers and tourism interests to promote the area's outstanding tree and woodland heritage to visitors (ETWF3). Further information on the role of forests in supporting recreation and tourism in the local economy will emerge from a study that continued through the year, with survey work in the summer. The team, led by the Macaulay Land Use Research Institute, is scheduled to report in the next year. Local work included a study into the needs of visitors to Galloway Forest Park.

Forest Enterprise spent £3.2 million on the provision and maintenance of visitor facilities in the national forests and worked closely with VisitScotland and Area Tourist Boards, for example, to ensure that the potential of forest recreation in the national forests is fully reflected in tourist literature. Already articles placed have resulted in increased enquiries, several hundred from one article on western Atlantic oakwoods alone.

Tweed Valley Forest Park

Following its launch, in August 2002, the 5,000-hectare Tweed Valley Forest Park received high commendation in the Dynamic Place awards. This award recognised the high quality of planning and implementation of visitor facilities in the first Forest Park to be established in Scotland since 1988.

Working with partners

A strategy for improving the delivery of recreation and tourism within the national forest lands was drafted, but put to one side pending the outcome of the Forestry Devolution Review. Meanwhile, we continued to work with partners to make the most of the opportunities available. Working with partners, we continued to upgrade recreational facilities in the Queen Elizabeth and Argyll Forest Parks, (both of which now lie within the Loch Lomond and the Trossachs National Park), with the support of Objective 1 and Objective 2 European funding. Similarly, working with local partners, we set about establishing Scotland as a UK and international mountain biking destination. We continued to implement the "7stanes" European partnership ERDF project to establish seven world-class mountain biking trails across southern Scotland. By the end of March the centre at Glentress had been opened and another at Dalbeattie was nearing completion (and was officially opened in May 2003. Other 7stanes trails were on schedule for opening during the following reporting year.) We hosted parts of the World Cup Downhill and 4X Mountain Bike competition in Leanachan Forest, near Fort William, in June. This was such a success that the organisers announced they were going to bring the event, with the addition of a cross-country element, back to the area in 2003.

Forest Holidays

As part of the rationalisation of the Forest Holiday cabin business in Scotland, arrangements were made for the sale of the Loch Awe cabins site, (which was subsequently concluded in April 2003). Refurbishment of the Strathyre site continued and was expected to be completed by summer 2003.

Helping communities benefit from forests

Forestry for People Advisory Panel

This Panel was convened in October 2000 to serve for three years (subsequently extended to October 2005) to advise the Forestry Commission in Scotland on community involvement in forestry. Its work focuses on a programme of priority projects, details of which can be found on the website: (www.forestry.gov.uk/scotland/).

In response to Mary Hopley's report, *Responding to the Challenge: Forest Enterprise and Community Involvement in Scotland*, commissioned by the Panel, Forest Enterprise arranged a number of seminars. The report highlighted the breadth and depth of community involvement work being undertaken by Forest Enterprise and suggested ways to move forward, improving integration with Scottish Executive policy, developing skills, networking good practice, improving systems, and monitoring. The commitment to take forward and develop community involvement as fully as the Forestry Commission and the panel would like will require extra resources, mainly in the form of staff. The report and the Commission's action plan in response were subsequently published on the Commission's website at: www.forestry.gov.uk/scotland

Woods Work, a rural development forestry pilot project that Mr Wilson had launched on 6 March at the Parliament, was inspired by the Panel. It brings together three communities from rural Scotland with the Forestry Commission and the Enterprise network to explore new ways of gaining more rural development benefits from local forests.

The Panel is considering the scope for local communities to lease or gain ownership of Forestry Commission land, as part of the spectrum of management and ownership options. It hopes to establish which elements of the legislation and regulations act as constraints to achieving greater

community involvement in the national forests; and to clarify any discretion available to the Forestry Minister.

The Panel has also investigated the community dimension of privately owned woodlands. A seminar was arranged for the Panel and a number of private woodland owners and agents, which recognised the potentially significant role of the private sector in helping communities to benefit from woods and forests. Working collaboratively with the Panel, the Forestry Commission agreed to fund and manage the preparation of a publication identifying examples of best practice within the private woodland sector, highlighting barriers tackled and overcome, and innovative forms of partnership working.

The Panel also contributed to the review of the Woodland Grant Scheme and Farm Woodland Premium Scheme and the Forest Enterprise Quinquennial Review, and gave advice on the development of performance indicators and on the Commission's disposals policy. Minutes of its meetings are posted on the Panel's pages of our website.

Involving People in Forestry

We organised a joint seminar in Aviemore with the Institute of Chartered Foresters on involving people in forestry. This was attended by a number of Forestry Commission (including Forest Enterprise) staff, local authority staff and private-sector agents. It provided the opportunity for participants to understand more fully our expectations in terms of consultation and participation, and to develop skills in these areas.

We developed and piloted training courses for our staff to enable them to test methods of proactively involving people in forestry.

Forest Enterprise also worked with communities in Morvern and Glen Urquhart, amongst others, to secure European funds to increase the economic, social and environmental contribution that local woodlands make to rural development.

Non-timber forest products

A seminar on the value of non-timber forest products was held, under the auspices of the Scottish Forest Industries Cluster, on 13 May. This included presentations on the potential exploitation of chemical derivatives from trees and on the marketing of edible products, such as mushrooms. One speaker, who founded a company based on the wild mushroom trade in 1995, is now reported to have a turnover of £100 million per year.

Forest Education Initiative

The Commission contributed to a package of funding that enabled the creation of a post of Forest Education Initiative co-ordinator for Scotland, on a 12-month, fixed-term appointment. Working within the 5-14 curriculum, the co-ordinator works to support regional FEI groups' efforts to raise children's understanding of Scotland's sustainable forestry and wood-processing industries and the uses of wood. The post-holder is based in the Commission's National Office for Scotland. (The post was subsequently extended for a second year).

Using resources efficiently

(Much of the following text relates to work carried out by the Forestry Commission as whole, but having a significant effect on our work in Scotland. In pursuing this, we work in concert with colleagues supporting the activities of Forestry Commission colleagues in England, Wales and Scotland.)

Modernising Government

We continued to move ahead with the programme of improvement in the delivery of our services, which originated from the Modernising Government White Paper (Cm 4310).

We made further progress with our “Connect” internal change management programme, which is designed to improve the way our staff work together to further the interests of forestry throughout Britain. This included:

- 🔊 drawing up for the first time a set of Values for our staff. The Values (Teamwork, Professionalism, Respect, Communication, Learning and Creativity) were based on discussion with more than half of all our staff in all parts of the Commission;
- 🔊 developing the leadership skills of a further 197 managers who attended specially-designed “Valuing People and Supporting Change” events, on top of the 250 managers who attended leadership events during 2001-02;
- 🔊 improving communications with staff, notably through more face-to-face meetings with senior managers; better use of e-mail, including distributing fortnightly to all staff “Connect Bulletins” of items of general interest; and an increase in the amount and accessibility of information on our intranet; particular efforts were made to both inform and consult staff frequently during the Forestry Devolution Review;

- 🔊 greater use of non-pay rewards for staff, ranging from a simple “thank-you” to a one-off award of 5 days extra holidays in staff’s 20th year of service;
- 🔊 a revised course for recruits to the Commission, to improve the effectiveness of new staff. During the year, 11 courses were attended by 156 people.

Other important achievements during the year included:

- 🔊 progress towards the government-wide target of giving citizens and businesses electronic access to all services by 2005. At the end of March 2003, more than 40% of our services were fully accessible and more than 20% partly accessible;
- 🔊 the successful completion of a pilot project to store and retrieve records electronically, replacing paper files and improving efficiency – allowing progressive implementation throughout the Commission to start in April 2003, in plenty of time for the target completion date of 2004;
- 🔊 a reduction in sickness absence, thanks to better occupational health policies and management practices. We reduced absence rates from 8.3 days per staff year in 1998 to 6.9 days in 2002, putting us on course to achieve our 2003 target of 6.3 days. At the same time, we reduced medical retirements from 7.65 per 1,000 staff in 2000 to 3.84 in 2002 – beating our target of less than 4.84 by 2005;
- 🔊 an increase in the number of female staff at senior levels, achieving (or almost achieving) all our end-2002 targets;
- 🔊 completion of the quinquennial review of Forest Research and the implementation of almost all its recommendations (with the rest following later in 2003).

We have benchmarked our progress against other organisations, and against our own performance before the Connect change programme. Externally, that involved a re-evaluation against the Investors in People accreditation, which we were awarded in 2000. During 2002, the core part of the Forestry Commission, plus Forest Enterprise, won re-accreditation. The assessors noted tangible improvements in performance since the original accreditation. Forest Research will be re-evaluated in June 2003.

The November 2002 Staff Survey also showed progress. Indeed, of the 160 questions asked, only eight showed a poorer performance and there were big improvements in team working, leadership, diversity and training. Staff who thought that morale in their units was high increased by 12% and those who would recommend the Commission as a place to work had increased by 18%. Almost 40% of staff felt that the Commission was a better place to work than it had been at the time of the previous survey, only two years before. There were still areas of concern, but the survey gave a strong indication that the culture change programme was moving quickly in the right direction.

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 administration. Work began on a new IT system known as GLADE (Grants and Licences Administration Delivered Electronically) that will allow map-based and textual data to be exchanged with applicants.

The complexity of the work involved and the wider business issues were recognised, and a programme of projects has been set up for delivery of the IT system and new grant schemes.

The programme is expected to realise financial and non-financial benefits to both applicants and FC staff. These will be monitored throughout the programme to ensure that the delivery is transparent.

This is the first time that a grant delivery system has been developed for three country-specific grant schemes, so each country is represented on the GLADE project team to ensure that it delivers the country business requirements. In addition, the Forestry Industries Development Council represents the industry. Separate country projects have been established that will deliver the grant schemes and business re-engineering.

The country projects will include training and development to meet the changes in technology and working practices. Business change managers have been appointed for the duration of the programme to work with local managers, agents and applicants to communicate and implement changes within their workplace.

Where necessary, external expertise, knowledge and guidance will be bought in to allow us to support the in-house teams who will be responsible for the long-term support of the new IT and revised business system.

Forestry Training Services

Forestry Training Services (FTS) has a strategic role in providing learning, training and development opportunities for Forestry Commission staff. They work with others to develop and deliver best practice in the Forestry Commission and the wider forest industries.

Using resources efficiently (continued)

There are four training centres in England, Scotland and Wales offering a service to each of the countries. The training centre at Silvan House has just been refurbished.

In 2002-2003 FTS:

- 🔧 developed a new training event as part of our people skills series called "Valuing and Supporting People and Change". This is a key element of our change culture programme;
- 🔧 refreshed and delivered a new entrants' event as part of our induction process;
- 🔧 introduced GIS to woodland officers managing the woodland grant schemes;
- 🔧 developed a new series of events to support our wildlife ranger staff;
- 🔧 developed a partnership with Barony College in Dumfries to train qualified machine operators for the Commission and the Industry;
- 🔧 developed and delivered a course on contract management to Commission staff;
- 🔧 raised standards in the industry by offering assessment under the Forestry Machine Operators' Certification scheme through our VQ approved centre;
- 🔧 recruited two new members to the training team to promote and drive the sustainability agenda, e.g., social forestry, bio-diversity and recreation;
- 🔧 worked with our technical development branch to support practical workshops that deliver best practice; and
- 🔧 delivered 9,200 trainee days.

Health and safety policy

It is the policy of the Forestry Commission 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. The Commission also has a policy of taking good care of the welfare of its employees.

Health and safety goals

During the year the Forestry Commission continued to promote and work with the Health and Safety Executive (HSE) on managing health and safety in forestry framework. In particular we worked to carry the initiative into the management of health and safety in timber transport. We organised seminars with the Forestry Contracting Association to improve the management of health and safety in the timber transport chain, in particular the understanding of risk assessment and site safety rules.

The Forestry Commission developed and published a policy on managing the health and safety of employees who drive at work. The policy set out the responsibilities for those who drive and for those who manage staff who drive, and includes an information leaflet setting out best practice.

The Commission has worked with SNH and the Countryside Agency to advise on the health and safety of those taking part in a wide range of countryside recreational activities.

Accidents at work

The following figures set out the incidence of reportable accidents (those causing incapacity for more than 3 days) for all staff in 2002-03 and the preceding years. The overall decline in accident rates is encouraging and can partly be attributed to the higher profile afforded to health and safety in all forest operations.

Year	No of accidents per 100 employees
2002-2003	0.98
2001-2002	1.10
2000-2001	1.66
1999-2000	1.64
1998-1999	1.47

Making forestry safer

The safety of the workforce and others using forests is a prime consideration in forestry operations. It is, accordingly, a feature built into all of the operational research funded by the Commission. For example, the demonstration that alpha-cypermethrin may be a suitable replacement for permethrin on grounds of efficacy (noted above) triggered the start of an investigation to determine the level of personal protection that might be required in normal operational use. This research is a joint project by the Commission and the Health and Safety Laboratory.

The year saw completion of an important special project to examine whether current methods of transporting cross-loaded round timber were appropriate and safe to staff and other road users. The research was jointly sponsored by the Health and Safety Executive, Department of Transport, Forestry Commission and the forestry industry, and was carried out by the Transport Research Laboratory with assistance from Forest Research. It involved analysing the mechanism by which such loads may be shed, the methods of load restraint and the implications for driver loading. A full report with recommendations was published in February 2003 by HSE Books as Research report 077 (ISBN 0717626245).

Appendix 1

Membership of Committees, Panels and Groups

National Committee (established 1 April 2003), Regional Advisory Committees, advisory panel on Forestry for People, and Scottish Forestry Forum Steering Group – membership at 31 March 2003.

National Committee for Scotland

Andrew Raven (Chairman); Dr Bob McIntosh Director, Forestry Commission Scotland; Dr Hugh Insley, Acting Chief Executive, Forest Enterprise Scotland; Paul Snaith, Head of Corporate Services, Forestry Commission Scotland; John Graham, Head of Scottish Executive Environment and Rural Affairs Department; Martin Gale; Simon Pepper OBE. Secretary to the committee: Kenny Murray.

Regional Advisory Committees

North: Highland and Grampian Conservancies

Professor Hugh Miller OBE (Chairman); Dick Balharry; Claire Belshaw; Michael Chapman; Cllr Basil Dunlop; Barrie Hudson OBE; Tom Inglis; Michael Leslie; Alastair MacLennan; Dr Peter Tilbrook; Dr Una Urquhart; Jonathan Wordsworth. Secretary to the committee: Ann Alexander. The committee met on 9 October 2002.

Mid: Strathclyde and Perth Conservancies

Shireen Chambers (Chairperson); Cllr Robin Banks; Dr Andrew Barbour; Robert Beaney; Elspeth Christie; Alan Christison; Angela Douglas; Sandy Kerr; Lachlan MacLean; Jim McCarthy; George McRobbie; James Stormonth-Darling. Secretary to the committee: Ann Alexander. The committee met on 31 October 2002.

South: South West Scotland and Lothian and Borders Conservancies

Mr John Wightman CVO CBE (Chairman); Dr Philip Ashmole; Chris Badenoch; Graham Booth; Christopher Cloy; Cllr Robert Higgins; Graeme Hodgson; Dr Peter Hopkins; Robert Kay CBE; Deborra Playfair; Guy Watt; Rog Wood. Secretary to the committee: Ann Alexander. The committee met on 2 October 2002.

Advisory Panel on Forestry for People

Andrew Raven (Chairman), Ruth Anderson (Secretary), Andrew Campbell, Cllr Margaret Davidson, Penny Edwards, Munro Gault, Dr Peter Hopkins, Andy Inglis, Willie McGhee, Donald McPhillimy, Richard Munday, Sheila Nairn, Sheila Ritchie, Cllr Willie (Ian) Ross.

The Panel met on 18 June, 3 and 4 September, 13 December 2002 and 21 March 2003.

Members of the Scottish Hardwood Timber Market Development Group

Guy Watt (Chair), Eoin Cox, Ivor Davies, Jamie Farquhar, Frank Gamwell, Roger Coppock, Gavin Munro, Derek Nelson (Secretary), Mark Williams. The group met for the final time on 26 March 2003, and thereafter was disbanded.

Scottish Forestry Forum Steering Group

At the Minister's request, the Forestry Commission brought together people representing a number of interests to help to set up the Scottish Forestry Forum. Members at 31 March 2003:

Margaret Davidson (or Colin Parsons)	Community Woodland Association
Michael Bruce (or Jamie Farquhar)	Forestry and Timber Association
Hugh Fife	Woods for All
Diana Gilbert	Highland Birchwoods
Gordon Gray Stephens	Scottish Native Woods
Tim Hall	Woodland Trust Scotland
Alan Hampson	Scottish Natural Heritage
Adam Harrison	World Wide Fund for Nature Scotland
David Sulman	United Kingdom Forest Products Association
Barrie Hudson	Forestry Contracting Association
Ian McCall	Ramblers Association
Michael Osborne	Scottish Woodlands
Nick Reiter	Deer Commission
Steve Robertson	Reforestation Scotland
Ian Ross (or Penny Edwards)	Forestry for People Panel
Gerry Selkirk	Scottish Executive Environment and Rural Affairs Department
Alastair Speedie	COSLA
Cedric Wilkins	Scottish Enterprise
Peter Wilson	Forest Industries Development Council
Mike Wood	RSPB
Rog Wood (or Craig Campbell)	SNFU
Andrew Raven	Forestry Commissioner
Tom Bruce-Jones	Forestry Commissioner
David Henderson-Howat (Chair)	Forestry Commission
Richard Broadhurst	Forestry Commission
Nikki Johnstone (Secretary)	Forestry Commission

The group met on 1 May 2002, 28 August 2002 and 16 January 2003.

Appendix 2

Selected extracts from Speeches and Press Releases

More trees than since Robert the Bruce

Following the publication of the National Inventory of Woodland and Trees for Scotland, on 21 April, Allan Wilson, the Forestry Minister, said:

“It is pleasing to record that 83 years of Government and Executive encouragement for new woodland planting, coupled with strict conservation guidelines, are paying dividends in Scotland in the form of steadily increasing woodland cover.

Scotland’s woods and forests now directly support more than 10,000 jobs and generate more than £800 million a year in business turnover.

Our forests will soon produce more wood than we need, so that Scotland will soon become a net exporter of wood.

Woods and forests are Scotland’s biggest provider of outdoor recreation, hosting more than 22 million day visits a year.

Scotland’s forests are sustainably managed to high environmental standards. We plant more trees than we harvest, and our expanding woodlands provide protected homes to some of our best-loved wild plants and animals.

The relative area of broadleaved trees has increased from 15% of total woodland to 18% since 1980 as broadleaved planting has outstripped conifers.

There has been a resurgence of interest in restoring native woodlands, resulting, for example, in an increase of more than 30,000 hectares in the area of Caledonian pinewoods in northern Scotland over the past 15 years.

Finally, another emerging trend that I particularly welcome, is the increasingly close involvement of communities with the care and management of their local forests, and the steady reawakening of an interest in woods and forests among ordinary people.”

Watching Woodland Wildlife

Allan Wilson, the Forestry Minister, in welcoming the publication of the Treefest "Watching Woodland Wildlife" leaflet at the "It's Wild! People, Nature and Tourism conference on 2 May, said:

"Scotland's expanding trees, woods and forests – and the wild plants and animals that live in them – are being recognised more and more as tourist attractions in their own right, alongside our more traditional visitor attractions. Watching woodland wildlife is one of the most satisfying ways to enjoy woodlands and the outdoors, so this leaflet will further reinforce our woodlands' role as important visitor attractions.

Of course, it is important that when we go into the woods to watch wild animals, we do so in a way that does not disturb or harm them. Therefore I am delighted that the leaflet has highlighted the best places to observe wild birds and animals without disturbing or harming them, and for this reason I would encourage anyone interested to get hold of the leaflet before they set out for the woods.

I am also very pleased that most of the sites in the leaflet are accessible to everyone, not just hardened outdoor enthusiasts, and many are suitable for family visiting."

Forest fitness

Speaking when the new campaign was launched, on 20 May, to encourage more people out into Scotland's forests to improve their fitness, Allan Wilson, the Forestry Minister, said:

"Our forests offer some of the most stunning and spectacular places to get away from it all. Millions of people take to the forests and woodlands each year either to walk, ride mountain bikes, marvel at the scenery or simply to enjoy the fresh air.

Our top 10 walks, bike rides and events have all the makings of a great day out, and could also be just the kick start needed to improving someone's health and fitness."

Appendix 2

Selected extracts from Speeches and Press Releases (continued)

Scottish Forestry Grants Scheme

Speaking at the presentation ceremony for the Royal Highland and Agricultural Society's Scotland's Finest Woodlands Awards at the Royal Highland Show, on 21 June, Ross Finnie, the Minister for Environment and Rural Development, announced that the woodland grant schemes in Scotland were to be revised to give them a greater Scottish focus and bring them closer into line with modern thinking on integrated land use and community involvement:

"We are committed to supporting a sustainable and diverse rural economy. Integration of forestry support with other Scottish land use policy is an important part of that.

At present these grant schemes operate Great Britain-wide, but following the publication of our Scottish Forestry and Agriculture Strategies the opportunity was taken to look at the schemes and come up with a forestry and woodland support system more appropriate to Scotland. The changes we are making should help to do that."

Trail from forest to mountain in the Cairngorms

Peter Peacock, the then Deputy Minister for Finance and Public Services, when opening the new three kilometre path connecting low-level woodland trails in Glenmore Forest Park to the upland path network, on 15 July, said:

"This path has been designed and built in a manner sensitive to the needs of the very special environment in which it is situated," he said. "Yet it will also be an invaluable facility enabling a range of users to enjoy the outdoors – from keen mountain folk who have grown tired of trudging over tarmac to access the hills, to the less energetic who simply choose to enjoy the sights and sounds of the downhill walk.

The National Park, however, will be about more than conservation and recreation, and this path provides a valuable link in the path network which is so important to the tourism and the people and jobs that it supports.

The project is a credit to all the partners, who consulted closely with interested parties over the routes, and ensured it was designed and developed in an environmentally friendly way."

Black grouse

In welcoming news that work has begun to reverse the decline in Argyll and Bute's numbers of black grouse, Allan Wilson, the Forestry Minister, said on 25 July:

"Black grouse are an enduring symbol of Britain's great outdoors, and Argyll and Bute were once strongholds of these charismatic birds.

Although no accurate local figures are available, the UK population is estimated to have declined from 25,000 males in 1990 to about 6,500 by 1996, giving us cause for concern about their future.

The main reason for the decline has been loss of habitat – the kind of environment they need to live in. Black grouse need a patchwork of long and short heather, sparse woodland cover and wet, boggy areas, which have been largely lost from Argyll and Bute as a result of changes in land use.

So I'm delighted that the Forestry Commission, Scottish Natural Heritage (SNH), the RSPB, Scottish Power and several other organisations and companies have pooled their resources to work towards building up local black grouse numbers again.

In the long term we would like to see the black grouse become a tourist attraction in the area."

Tweed Valley Forest Park

Opening a new walking trail in the Tweed Valley Forest Park's main tourist attraction, Glentress Forest, near Peebles, on 13 August, Euan Robson, the then Deputy Minister for Parliamentary Business, said:

"The newly launched Tweed Valley Forest Park has all the ingredients for a memorable visit, be it for a day or for longer. There are superb walking and horse riding trails in the new Park and the mountain bike routes already have an international reputation but there's far more to the area. The Tweed Valley is steeped in heritage and beauty and supports an amazing variety of wildlife."

Appendix 2

Selected extracts from Speeches and Press Releases (continued)

Wood and renewable energy

Speaking at the relaunch of Highland Birchwoods at Munloch, Ross-shire, on 22 August, Ross Finnie, the Minister for Environment and Rural Development said:

“When you mention renewable energy we tend to think about windmills and wave power, but there is clearly an increasing awareness of the contribution that wood as a fuel can make to helping our environment.

The Scottish Executive has awarded Highland Birchwoods a Sustainable Action Grant to help raise the profile of the benefits of wood fuel, and I look forward to seeing the fruits of this work. We have a renewable forest resource in the Highlands, much of it in remote areas, and this is one of the ways in which we can diversify its use.

As the volume of timber our forests produce continues to increase, we need to look for more and more opportunities to add value to it as locally as possible, and this is particularly important as our timber competes with fluctuations in the global market.”

Locational premiums

Special new Scottish Executive tree planting grants totalling £1.85 million which will be available in parts of West Lothian, Falkirk, Lanarkshire, East Dunbartonshire, Ayrshire, Aberdeenshire, Moray, Shetland and Orkney next year, were announced on 24 September by Allan Wilson, the Forestry Minister:

“Locational premiums will differ from challenge funds by being offered at a fixed rate per hectare on a first-come, first-served basis, rather than going to the best bids in a competition among applicants. This will eliminate the uncertainty and the sometimes unproductive work that the challenge funding process involves for unsuccessful applicants, while the high standards required by the UK Forestry Standard, and which the Forestry Commission makes a condition of grant aid, will ensure that the taxpayer continues to get good value for money.

I am particularly pleased to announce the first special help for tree planting in the Northern Isles, where the councils have shown enthusiasm for small-scale planting to improve what are largely treeless landscapes. Both Councils have developed woodland strategies, and even small new woodlands there will make a significant difference to the islands’ environment and improve the quality of the residents’ lives.”

Timber transport routes in Dumfries and Galloway

Speaking at a reception at the International Forest Fest on 27 September, Allan Wilson, the Forestry Minister, congratulated the Dumfries & Galloway Timber Transport Group on their work to agree routes:

“It is vital that all parties with an interest in timber transport work together to develop innovative, cost-effective local solutions to minimise and manage the impacts of timber transport.

One of the ways in which we can minimise the impact on fragile rural roads is to sit down and work out together which roads timber lorries can use, which roads they cannot use, and which ones they can use if certain conditions are met. This is what has happened here in Dumfries and Galloway.

I am sure there is also broad recognition that agreed routes maps are only one of several items in the toolkit for achieving a sustainable, cost-effective, long-term strategy for timber transport, and I am confident the partners will continue to explore and develop other solutions to the issues that timber transport raises.”

UK Forest Partnership for Action

Welcoming the initiative on 29 October, Allan Wilson, the Forestry Minister, said:

“The Earth Summit at Rio, ten years ago, and last month’s Summit at Johannesburg have engendered a level of consensus which until recently would have been unthinkable.

In Scotland, we are determined to play our part in taking forward the agenda for sustainable development through action at all levels. The creation of the Scottish Parliament with its devolved powers has provided us with opportunities to develop sustainable solutions tailored to Scotland’s needs.

Sustainability is the overarching principle behind the Executive’s Scottish Forestry Strategy, and we are delighted to see progress in implementing this strategy, to deliver increased environmental, economic, and social benefits of forestry.

I welcome this wider initiative of the forest industries, environmental groups and the public sector, in working together to encourage and develop sustainable practice. Working together is the way to make a real difference.”

Appendix 2

Selected extracts from Speeches and Press Releases (continued)

Scottish Forestry Forum – 26 November

Speaking at the first Scottish Forestry Forum on 26 November, at Battleby, Perthshire, Allan Wilson, the Forestry Minister, said:

“There is no doubt that people are beginning to appreciate the contribution that forestry can make to other important strands of our everyday lives. Forestry can positively influence and enhance our policies in areas such as health, education, sustainability, biodiversity, tourism, economic development and even energy – whether wind farm or woodfuel.”

Speaking about the Forestry Devolution Review, Mr Wilson said:

“We will be strengthening the Forestry Commission’s National Office for Scotland; making the Commission’s forest management agency, Forest Enterprise, more directly accountable to Scottish Ministers; and developing closer links between the Commission and other Executive departments.”

Heritage Trees

Announcing the 100 Heritage Trees of Scotland, on 23 December, Allan Wilson, the Forestry Minister, said,

“Scotland can be proud of its extraordinary legacy of heritage trees, which are a national treasure unrivalled in Europe.

It reminds us what a timeless link many trees are to our rich and colourful past when we reflect that at least one of these trees was already alive when Scotland’s patron saint, St Andrew, became a disciple of Jesus and Christianity was founded.

The Heritage Trees of Scotland initiative, and indeed the whole Treefest programme, have been an excellent and imaginative approach to helping Scotland’s people and visitors learn about and appreciate our country’s special heritage of trees, woods and forests.

Most of these wonderful trees can be visited by the public, so I would encourage the people of Scotland, and our visitors, to go and marvel at them and enjoy Scotland’s countryside at the same time. By visiting the countryside we help sustain good health, and at the same time we help sustain vital rural businesses and communities.”

Timber cladding

Announcing, on 19 February, the EU funding of a project to explore the potential for home-grown Sitka spruce in timber cladding (which is being carried out by the Highland Council, Forestry Commission and colleagues in the Scottish Executive) Allan Wilson, the Forestry Minister, said:

“Modern Scots tend to think of brick and stone as their traditional building materials, and that timber-clad buildings would be unsuitable in our climate. In fact, until about 300 years ago most buildings in Scotland were made of wood; only rich people had stone houses.

Moreover, countries with similar maritime climates, such as Norway, the Faroes, Iceland and coastal Canada, continue to use durable, timber-clad buildings very successfully.

Through this project we will be able to draw on their experience to calculate the potential for using home-grown Sitka spruce for timber cladding, and for developing a new market for our growing timber production.”

Timber transport in Ayrshire and Arran

At an event in Patna, near Ayr, on 24 February, in launching the Ayrshire & Arran Agreed Routes Map for timber haulage, Allan Wilson, the Forestry Minister, said:

“For historical reasons, much of the timber resource is located in forests on minor rural roads that were not built to meet the demands of modern road haulage. Councils are concerned to protect these roads from damage and to minimise the impact of haulage on rural communities.

The Agreed Routes Map for timber haulage is one of the solutions to this challenge, and it identifies the best routes for timber to leave the different forest areas.”

Appendix 2

Selected extracts from Speeches and Press Releases (continued)

Woods Work – rural development forestry

Speaking at a reception on 11 March, to mark the launch of Woods Work (a partnership with Galloway-based Balloch Wood Community Project, Minard Community Woodland Trust in Mid Argyll and North Sutherland Community Forestry Trust) Allan Wilson, the Forestry Minister, said:

“Many of Scotland’s more remote rural areas are economically fragile and we need to ensure the most is made of all opportunities to develop local skills and natural resources in a way that maximises local wealth creation.

For the three communities Woods Work aims to bring economic benefits by stimulating forestry related business enterprises. The project will help identify and evaluate potential opportunities. The community groups along with other local stakeholders will select the most appropriate projects. Woods Work will then assist with feasibility work and development and implementation of business plans along with the sourcing of funding, training and market research.

By working with these three communities, Woods Work will help us to better understand the key ingredients for successful rural development forestry projects. I hope Woods Work will be a catalyst for the creation of many new woodland based businesses, bringing new economic activity where it will add maximum value to fragile rural economies.”

Appendix 3

Woodland Grant Scheme Applicants' Charter

The Forestry Commission operates Charter Standards for Woodland Grant Schemes and Felling Licence applicants as well as for Forest Enterprise Design Plans. In all cases, we aim to acknowledge receipt of applications within three working days. For grant applications we aim to process applications from proposal stage to draft contract stage within 11 weeks. This includes any consultation with outside bodies. For Felling Licence applications, we aim to issue a licence within ten weeks of receiving an application.

Overall, we processed 78 per cent of Woodland Grant Scheme applications within 11 weeks, and 20 per cent of all cases involved formal consultation. For Felling Licence applications, we processed 86 per cent of applications within ten weeks. Overall processing performance for Forest Enterprise design plans was 72 per cent of plans approved within ten weeks, compared with 75 per cent in 2001-02. In terms of payment of grant claims (our target is four weeks), we paid 93 per cent of claims within the target period.

The processing times for WGS applications in 2002-03 were:

	2002-03 Percentage
WGS applications	
Acknowledged within 3 days	100
Processed in under 11 weeks	78
Felling Licence applications	
Acknowledged within 3 days	95
Processed in 10 weeks	86
Forest Enterprise design plans	
Processed in under 10 weeks	72
Grant claims	
Paid in under 28 days	93

Appendix 4

Grants and Licences – high profile cases

Gairloch and Conon WGS

There has been some publicity about this 2,000 hectares new native woodland scheme which will be established over the next five years. This was one of the schemes already in the pipeline in 1999 when new rules were introduced for negotiating rates for schemes in excess of 300 hectares. Although, there has been considerable discussion about the proposals (for example over the extent to which the land originally proposed for planting is suitable), the scheme will make a significant contribution to achieving Biodiversity Action Plan targets for the re-creation of native pinewood. Within the overall area of 4,000 hectares, about half will be left as open space.

Environmental Impact Assessment: Appeals against Forestry Commission decisions

Scottish Ministers have been considering three appeals against decisions the Commission took in relation to Environmental Impact Assessments. In the first case, Scottish Woodlands appealed (on behalf of Candacraig Estate, Aberdeenshire) against a decision taken in relation to an Environmental Impact Assessment for establishing new native pinewood. A condition was made that fencing could not be used because of the threat to capercaillie. Scottish Ministers upheld this decision. In the second case, the owner of a farm in Caithness appealed against conditions relating to a proposed Christmas tree plantation. Scottish Ministers upheld this decision, except that they have agreed to a variation in relation to a fencing condition. The third is a case in the Flow Country. The Commission served an enforcement notice under the Environmental Impact Assessment Regulations requiring the owner to remove trees (and reinstate the site) following planting without consent. The areas concerned are very small but lie within and adjacent to an SSSI European designated site. The owner has appealed to Scottish Ministers against the enforcement notice and the matter is being considered by Scottish Executive Legal and Parliamentary Services.

Appendix 5 Staff in National Office and Conservators

as at 31 March 2003

National Office

David Henderson-Howat	Chief Conservator
James Ogilvie	Operations Manager
Richard Broadhurst	Policy Officer
Ann Alexander	Administration and Finance Officer
Nicholas Shepherd	Landscape Architect
Derek Nelson	Market Development Officer
Peter Quelch	Native Woodland Advisor
Douglas Wright	Operations Support Manager
Rachel Chamberlain	Business Change Manager

(Alister Jones retired in January and was not replaced until April)

Biodiversity Officer

Conservators

Bob Dunsmore	Highland
Douglas Clark	Grampian
Syd House	Perth
Keith Wishart	Strathclyde
Alex Morris	Lothian and Borders
Christina Tracey	South West

Appendix 6 Staff in Territorial Offices and Forest District Managers

as at 31 March 2003

Forest Enterprise North Scotland

Territorial Office

Dr Hugh Insley	Director
Laurie Tyson	Land Agent, Scotland
Les Bryson	Harvesting and Marketing Officer
Moira Baptie	Forest Management and Environment Officer
Andy Leitch	Operations Support Officer
Alan Duncan	Territorial Management Accountant
Susan Innes	Administrative Manager
Maggie Gilvray	Territorial Landscape Architect

Forest District Managers

Chris Nixon	Dornoch
David Jardine	Inverness
Malcolm Wield	Fort Augustus
Philip Whitfield	Moray
Norman Davidson	Buchan
Gordon Donaldson	Lochaber
Kevin Peace	Kincardine
Charlie Taylor	Tay
Keith Miller	Lorne
Simon Hodge	West Argyll

Forest Enterprise South Scotland

Territorial Office

Mike Lofthouse	Director
Laurie Tyson	Land Agent, Scotland
Mike Green	Harvesting and Marketing Officer
Peter Weston	Forest Management and Environment Officer, on T/P Head of Forest Planning, Silvan House
Iain Yeoman	Territorial Management Accountant
Stephanie Atwell	Territorial Personnel Officer
Sandra Hanlon	Territorial Landscape Architect

Forest District Managers

Hugh Clayden	Cowal and Trossachs
Michael Wall	Scottish Lowlands
James Simpson	Scottish Borders
Bill Meadows	Ae
Rob Soutar	Galloway

Forestry Commission Conservancy Boundaries



Forest Enterprise Boundaries



Table 1

Area of planting for which grants were paid in the year ended 31 March 2003

Scotland
Woodland Grant Scheme
Hectares

	New Planting	Restocking	Total
Conifer	2,963	2,709	5,672
Broadleaved	3,671	780	4,451
Total	6,634	3,489	10,123

Notes:

1. The Woodland Grant Scheme figures in the above table include new planting granted-aided in association with the Farm Woodland Premium Schemes administered by the Scottish Executive Environment and Rural Affairs Department.
2. The areas of new planting and restocking include those areas where the second instalment of grant for natural regeneration has been paid.
3. The areas of new planting include 2 hectares of short rotation coppice which was grant aided.
4. The areas of restocking include 82 hectares of existing natural regeneration which has been secured in Scotland through the payment of grant aid.
5. It is estimated that 10 hectares were planted in Scotland without grant-aid.

Table 2

Area of planting for which grants were paid in the 20 year period
1 April 1982 to 31 March 2003

Scotland
Hectares

Year ended 31 March	New Planting	Restocking	Total
1982	10,663	1,339	12,002
1983	10,086	968	11,054
1984	14,129	1,019	15,148
1985	14,135	1,177	15,312
1986	17,292	1,559	18,851
1987	17,220	1,547	18,767
1988	21,197	1,660	22,857
1989	22,433	2,248	24,681
1990	11,488	1,984	13,472
1991	10,563	2,840	13,403
1992	9,825	3,210	13,035
1993	9,814	3,609	13,423
1994	9,180	4,314	13,494
1995	12,577	3,068	15,645
1996	10,195	3,169	13,364
1997	11,212	3,692	14,904
1998	11,304	2,737	14,041
1999	10,410	2,958	13,368
2000	10,363	3,757	14,120
2001	11,627	3,561	15,188
2002	7,880	2,884	10,764
2003	6,634	3,489	10,123

Note:

This table includes planting grant-aided under the Woodland Grant Scheme in association with the Farm Woodland Premium Schemes administered by the Scottish Executive Environment and Rural Affairs Department.

Table 3

Area approved for Management Grant under the Woodland Grant Scheme for the last five years

Scotland		
Hectares		
1998-1999	Conifer	6,594
	Broadleaved	3,552
	Total	10,146
1999-2000	Conifer	5,396
	Broadleaved	4,349
	Total	9,745
2000-2001	Conifer	2,590
	Broadleaved	6,325
	Total	8,915
2001-2002	Conifer	3,051
	Broadleaved	2,058
	Total	5,109
2002-2003	Conifer	2,802
	Broadleaved	3,174
	Total	5,976

Table 4: Summary of woodland planting in Scotland (including species planted)

Table 4.1

Areas of WGS Planting and Native Species (Grant Paid)

	1999-2000 (2)			2000-2001 (2)			2001-2002 (2)			2002-03 (2)		
	Native	Non-native	Total	Native	Non-native	Total	Native	Non-native	Total	Native	Non-native	Total
New Planting – Conifers	2,718	2,446	5,164	1,350	2,493	3,843	762	2,172	2,934	1,131	1,832	2,963
New Planting – Broadleaves	3,560	1,639	5,199	6,654	1,130	7,784	4,267	679	4,946	3,049	622	3,671
Total New Planting	6,278	4,085	10,363	8,004	3,623	11,627	5,029	2,851	7,880	4,180	2,454	6,634
Restocking – Conifers	206	2,269	2,475	468	2,032	2,500	80	1,977	2,057	73	2,636	2,709
Restocking – Broadleaves	753	529	1,282	725	336	1,061	720	107	827	449	331	780
Total Restocking	959	2,798	3,757	1,193	2,368	3,561	800	2,084	2,884	522	2,967	3,489
Grand Total	7,237	6,883	14,120	9,197	5,991	15,188	5,829	4,935	10,764	4,702	5,421	10,123

Notes:

1. Compiled on the basis of first instalments of grant paid.
2. Compiled using second instalment of grant for regeneration.

Table 4.2

Areas of Native Pinewoods (Sub-set of Table 4.1)

	1999-2000 (2)	2000-2001 (2)	2001-2002 (2)	2002-2003 (2)
New Planting – Scots pine	2,684	1,258	762	995
New Planting – Broadleaves ³	1,886	2,587	1,420	1,114
New Planting NR ⁴ – Scots pine	34	92	–	136
New Planting NR ⁴ – Broadleaves ³	113	266	170	36
Total New Planting	4,717	4,203	2,352	2,281
Restocking – Scots pine	76	44	4	41
Restocking – Broadleaves ³	25	71	7	25
Restocking NR ⁴ – Scots pine	130	424	76	32
Restocking NR ⁴ – Broadleaves ³	158	120	64	20
Total Restocking	389	659	151	118
Grand Total	5,106	4,862	2,503	2,399

Notes:

1. Compiled on the basis of first instalments of grant paid.
2. Compiled using second instalment of grant for regeneration.
3. This represents the broadleaved component of native pinewoods.
4. NR = natural regeneration.

Table 4.3

Areas – Other Native Species (Sub-set of Table 4.1)

	1999-2000 (2)	2000-2001 (2)	2001-2002 (2)	2002-2003 (2)
New Planting – Conifer	–	–	–	–
New Planting – Broadleaves	971	3,222	2,039	1,362
New Planting NR ³ – Conifer	–	–	–	–
New Planting NR ³ – Broadleaves	590	579	638	537
Total New Planting	1,561	3,801	2,677	1,899
Restocking – Conifer	–	–	–	–
Restocking – Broadleaves	534	346	381	200
Restocking NR ³ – Conifer	–	–	–	–
Restocking NR ³ – Broadleaves	36	188	268	204
Total Restocking	570	534	649	404
Grand Total	2,131	4,355	3,326	2,303

Notes:

1. Compiled on the basis of first instalments of grant paid.
2. Compiled using second instalment of grant for regeneration.
3. NR = natural regeneration.

Table 4.4

Areas of Native Pinewood grant aided under Annual Management Grant

	1998-1999	1999-2000	2000-2001	2001-2002	2002-2003
Native Pinewoods	7,696	9,379	6,860	7,588	8,605

Table 4.5

Areas grant aided under Woodland Improvement Grant 3 Challenge Funds

	1998-1999	1999-2000	2000-2001	2001-2002	2002-2003
Argyll and Bute Oak Woods	229	70	443	226	–
Cairngorms	2,563	1,998	3,631	185	8
Total	2,792	2,068	4,074	411	8

Table 4.6

Areas grant aided under Expansion Challenge Funds

	1998-1999	1999-2000	2000-2001	2001-2002	2002-2003
Speyside and Deeside	87	270	15	–	–
Central Scotland	32	400	510	431	317
Grampian	988	438	379	439	428
Total	1,107	1,108	904	870	745

Table 4.7

Areas grant aided under Community Woodland Contribution

	1998-1999	1999-2000	2000-2001	2001-2002	2002-2003
	204	82	129	120	35

Table 4.8

Restocking on Forestry Commission Land

	1998-1999	1999-2000	2000-2001	2001-2002	2002-2003
	3,373	4,261	4,449	4,874	4,987

Table 5

Area of planting for which grants were paid in the year ended 31 March 2003 by Local Authority Area

Woodland Grant Scheme	Hectares New Planting	Hectares Restocking
Highland Council	2,909	485
Orkney Islands Council	–	–
Shetland Council	3	–
Western Isle Council	223	–
Total Highland Conservancy	3,135	485
Aberdeenshire Council	898	325
City of Aberdeen Council	5	2
Moray Council	67	25
Total Grampian Conservancy	970	352
Argyll & Bute Council	437	387
City of Glasgow Council	6	–
East Dunbartonshire Council	10	–
East Renfrewshire Council	–	1
Inverclyde Council	24	2
North Ayrshire Council	–	22
North Lanarkshire Council	268	–
Renfrewshire Council Dept of Planning and Transport	102	48
South Lanarkshire Council	7	–
West Dunbartonshire Council	–	–
Total Strathclyde Conservancy	854	460
Angus Council	11	17
City of Dundee Council	1	–
Clackmannanshire Council	2	–
Falkirk Council	44	9
Fife Council	19	10
Perth & Kinross Council	435	116
Stirling Council	141	150
Total Perth Conservancy	653	302
Dumfries & Galloway Council	132	1,255
East Ayrshire Council	68	70
South Ayrshire Council	172	156
Total Southwest Conservancy	372	1,481
City of Edinburgh Council	9	1
East Lothian Council	11	15
Midlothian Council	33	20
Scottish Borders Council	39	368
West Lothian Council	558	5
Total Lothian and Borders Conservancy	650	409
Total Scotland	6,634	3,489

Notes:

1. The Woodland Grant Scheme figures in the above table include new planting granted-aided in association with the Farm Woodland Premium Schemes administered by the Rural Affairs Department.
2. The areas of new planting and restocking include those areas where the second instalment of grant for natural regeneration has been paid.
3. The areas of restocking include 82 hectares of existing natural regeneration which has been secured in Scotland through the payment of grant aid.

Forestry Commission in Scotland accounts for the year ended 31 March 2003

Financial highlights

Summary Income and Expenditure Account

for the year ended 31 March 2003

	2002-03	2001-02
	£000	£000
Income		
Forestry Commission		
EU co-financing of woodland grants	5,561	7,261
Miscellaneous income	132	15
Forest Enterprise		
Sales of Timber	33,961	34,313
Other forest income	4,746	4,195
Recreation income	3,497	2,979
	47,897	48,763
Expenditure		
Forestry Commission		
Grants and partnership funding	13,975	17,374
Policy, regulation and administration	6,116	6,631
Forest Enterprise		
Planning, protecting and maintaining the forest asset	21,582	20,679
Social and environmental	11,442	9,852
Timber harvesting and roads	31,143	31,091
Managing the non-forest assets	17,409	2,656
	101,667	88,283
Net expenditure for the year	(53,770)	(39,520)

Summary Cash Flow statement

for the year ended 31 March 2003

	2002-03	2001-02
	£000	£000
Net expenditure for the year	(53,770)	(39,520)
Depreciation and other non-cash items	17,507	2,499
Movement in working capital	(91)	1,360
Movement in provision and liabilities	557	409
Net cash flow from operating activities	(35,797)	(35,252)
New planting	(359)	(788)
Purchase of fixed assets	(5,498)	(3,247)
Net proceeds from disposal of fixed assets	2,559	1,782
Funding from Scottish Executive	(39,095)	(37,505)

Summary Balance Sheet

as at 31 March 2003

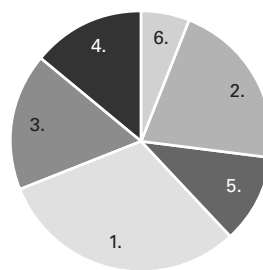
	2002-03 £000	2001-02 £000
Fixed assets	402,790	536,201
Debtors falling due after more than one year	103	151
Current assets	15,695	14,498
Creditors: amounts falling due within one year	(5,449)	(5,924)
Net current assets	10,246	8,574
Provision for liabilities and charges	(1,175)	(482)
Total assets less liabilities	411,964	544,444
Capital and reserves	411,964	544,444

Income 2002-03



1	Sales of Timber	71%
2	EU co-financing of woodland grants	12%
3	Recreation income	10%
4	Other forest income	7%

Expenditure 2002-03



1	Timber harvesting and roads	31%
2	Planning, protecting and maintaining the forest asset	21%
3	Managing the non-forest assets	17%
4	Grants and partnership funding	14%
5	Social and environmental	11%
6	Policy, regulation and administration	6%

Forestry Commission in Scotland resource accounts for the year ended 31 March 2003

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Foreword

Scope

1. Basis of Accounts

These accounts are prepared in accordance with the Accounts Direction issued by Scottish Ministers under section 45(1) of the Forestry Act 1967.

2. Departmental Accounting Boundary

The Forestry Commission in Scotland Resource Accounts incorporates the following entity within the departmental boundary:

✚ the core-department (the Forestry Commission) in Scotland.

Forest Enterprise (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 Scotland reflected in these accounts.

Equivalent resource accounts are produced for the Forestry Commission's activities in England and Great Britain (areas such as plant health, international policy and research which are either reserved or, by agreement, carried out on a Great Britain-wide basis), and Wales.

Forest Research (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.

3. Status

The Forestry Commission 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.

On 1 April 2003 the Forestry Commission in Scotland changed its structure to help forge closer links with the Scottish Executive. The stronger links are a direct result of the recent GB-wide Forestry Devolution Review which was agreed by the Scottish Forestry Minister and Forestry Ministers in England and Wales. Forestry Commission Scotland brings together the different roles which have been exercised by Forest Enterprise in managing Scotland's public forests and the National Office and Conservancies in supporting forestry through grant aid, regulation and advice and serving as the Executive's forestry department.

Foreword (continued)

The Commission's GB forest management agency, Forest Enterprise ceased to operate on 31 March 2003 and its functions were transferred to separate bodies in each country on 1 April 2003. Scotland will therefore have its own agency.

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

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 Scotland, it implements the strategic directions of the Scottish Forestry Strategy, Forests for Scotland, which are:

- 🌲 to maximise the value to the Scottish economy of the wood resource becoming available over the next 20 years;
- 🌲 to create a diverse forest resource of high quality that will contribute to the economic needs of Scotland throughout the 21st century and beyond;
- 🌲 to make sure that Scotland's trees, woods and forests make a positive contribution to the environment;
- 🌲 to create opportunities for more people to enjoy trees, woods and forests in Scotland; and
- 🌲 to help communities benefit from woods and forests.

6. Departmental Report

The Forestry Commission (Scotland)'s annual spending plan is in Chapter 13 of The Scottish Budget 2003-04 published in February 2002 setting out expenditure plans for the next three years. The Forestry Commission in Scotland's Corporate Plan 2003-04 was published in March 2003.

7. Post-Balance Sheet events

There are no post-balance sheet events other than the outcome of the Forestry Devolution Review noted in paragraph 3.

8. Pensions

Present and past employees of the Forestry Commission are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS). The financial status of the scheme is reported in a separate PCSPS scheme statement. The Forestry Commission recognises the expected cost of providing pensions on a systematic and rational basis over the period during which it benefits from employees' services by payment to the PCSPS of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the PCSPS.

Operating and Financial Review

9. The business, its objectives and strategy

As the Government department for forestry throughout GB, the Forestry Commission provides advice and support to the UK Government and to the devolved administrations in Scotland and Wales. It develops policy, sets the standards for sustainable forest management and encourages good forestry practice. It conducts forestry research, provides information and offers grants for managing and expanding woodlands and forests. It has statutory duties to regulate forestry through the control of tree felling and to protect forests from pests and diseases. It also manages the public forest estate in England, Scotland and Wales, providing recreation for many millions of visitors, producing more than 5 million cubic metres of timber each year and making a major contribution to the conservation of our natural heritage.

Foreword (continued)

The Forestry Commission operates across GB as a cross-border public body. This allows England, Scotland and Wales to benefit from the economies of scale that a GB-wide body is able to offer. This includes support services such as finance, personnel and IT skills; expertise on matters such as climate change, biodiversity, forest protection and industry development; and access to shared resources such as economic, statistics and forestry training services.

The Forestry Commission answers separately to Ministers in England, Scotland and Wales for the development and implementation of forestry policy. The Commissioners' programmes to deliver each country's forestry strategy are set out in Corporate Plans for England, Scotland and Wales. These programmes are directed and financed by the three administrations to which the Commission is directly accountable. In addition, a number of the Commission's functions are funded directly by Westminster and operated on a GB basis. These include:

- 🌳 European and International Forestry Policy – the Forestry Commission's international policy staff (working with other departments) formulate UK policy in international negotiations, develop the UK's national forest programme and advise on implementation of international and European obligations.
- 🌳 Plant Health and Forest Reproductive Materials – the Forestry Commission's Plant Health Unit operates throughout GB with the vital task of preventing entry of harmful pests and diseases from overseas. It also controls the marketing of forest seed, cones, cuttings and plants by approving basic material (e.g. stands, seed orchards), certifying reproductive material and inspecting the nursery trade.
- 🌳 Forest Research – the Forestry Commission's executive agency is a centre of excellence for scientific expertise in forestry. Around £10 million a year is spent through the Agency and external providers looking at issues such as sustainable forest management, climate change, biodiversity, inventory, forest condition and threats to tree health, ways of measuring the social and environmental benefits of woodlands and improving the economic potential of home-grown timber.
- 🌳 Setting and Monitoring Standards of Sustainable Forest Management – the Forestry Commission is responsible for developing the UK Forestry Standard setting out how the principles of sustainable forest management will be delivered in practice against international agreed criteria. This work includes monitoring the state of the UK forestry sector against Indicators of Sustainable Forestry published in 2002 and supporting the UK Woodland Assurance Standard which provides for the independent certification of forest management in the UK.

Forestry Ministers in England, Scotland and Wales meet regularly to review issues of common interest. The Secretary of State for Environment, Food and Rural Affairs has overall responsibility for forestry interests within the European Union and for international negotiations on forestry, including the formulation of UK policy. The Secretary of State consults with Scottish Ministers, the National Assembly for Wales and the Northern Ireland Assembly on UK-wide issues.

The Forestry Commission's executive agencies, Forest Enterprise (which manages Britain's public forest estate of over 1 million hectares) and Forest Research operate on a GB basis. The agencies' programmes reflect priorities as expressed in the country strategies.

The Forestry Commission's National Office for Scotland and GB headquarters functions are both located in Silvan House, Edinburgh. The six Scottish Conservancies covering the Highlands, Grampians, the Perth area, Strathclyde, South West Scotland and Lothian and Borders carry out regulatory and grant support functions.

Forest Enterprise is responsible for managing the Commission's estate. Forest Enterprise has offices in Inverness and Dumfries and 16 Forest Districts.

Forest Research has a major research station at Bush near Edinburgh and several field stations.

10. Operating review

The objective for the department's activities across GB is to take the lead in development and promotion of sustainable forest management and to support its achievement nationally. The department led the UK Government's contribution on forestry to the World Summit on Sustainable Development which took place in Johannesburg, South Africa from 26 August to 4 September 2002, working with business and environmental groups to develop a strategy for sustainability for the forest sector. The forest and forest products industries, environmental groups, the devolved administrations and the UK Government agreed to work in partnership to promote sustainable development in the forestry sector in the UK and abroad. Areas on which the UK partnership agreed to focus include forest certification, illegal logging, timber procurement and forest restoration and protection. Other international and national achievements are contained in the Forestry Commission's England and Great Britain Annual Report and Accounts.

The prime output from the Forestry Commission in Scotland is the encouragement of afforestation by payment of grants under the Woodland Grant Scheme. The Scheme has been under review during the year, and so, as expected, there has been a lower take up than usual (£14.0 million compared with £17.4 million in 2001-02) since growers were waiting to see what the new scheme would bring. The new Scottish Forestry Grant Scheme was successfully introduced in June 2003.

Foreword (continued)

11. Performance in the period

The department's action plan is published in the Forestry Commission in Scotland Corporate Plan. A progress report against the actions identified in the 2002-03 Corporate Plan is contained in the 2003-04 Corporate Plan. Further information is provided in the Forestry Commission in Scotland Annual Report and Accounts. The targets cover the following areas:

GB Activities

- 🌳 Publish the National Forest Programme for the UK based on the forestry strategies for each country.
- 🌳 Publish UK indicators for monitoring sustainable forest management.

Scottish Forestry Strategy

- 🌳 Maximising the value of Scottish wood.
- 🌳 Developing the forest resource for the future.
- 🌳 Making a positive contribution to the environment.
- 🌳 Creating opportunities for more people to enjoy trees, woods and forests.
- 🌳 Helping communities benefit from woods and forests.
- 🌳 Efficient use of resources.

12. Dynamics of the business

During 2002 an interdepartmental group undertook the Forestry Devolution Review, which considered administrative arrangements for forestry in Great Britain. Forestry Ministers decided that current arrangements should be updated, without legislation, to achieve greater integration of forestry with other rural policy work in each country whilst maintaining a collaborative approach to common issues. The key changes agreed by Ministers had been implemented by 1 April 2003 and include:

- 🌳 establishing a new Ministerial Committee bringing together Forestry Ministers in England, Scotland, Wales and Northern Ireland to discuss international issues, any cross-cutting issues where collaboration would be an advantage, and to monitor the effectiveness of the new arrangements;
- 🌳 expanding the International forestry group to include officials from the Scottish Executive and Welsh Assembly Government;
- 🌳 enhancing the role of the devolved administrations in determining research priorities through the joint approval of Forestry Ministers;
- 🌳 strengthening integration of policy development and delivery between the Forestry Commission's National offices and rural affairs departments;
- 🌳 appointing executive Forestry Commissioners to head all the Forestry Commission's work in England, Wales and Scotland;
- 🌳 devolving the Forest Enterprise agency into three separate country bodies.

A new Scottish Forestry Grant Scheme was introduced in June 2003. This has involved considerable consultation with stakeholders and is better designed to ensure that the private sector deliver sustainable forestry as outlined in the Scottish Forestry Strategy.

13. Investment for the future

Key to the future delivery of the grant schemes is investment in a new internet based system. It will include a facility for applicants to use electronic formats, allow greater use of geographic information systems, provide better interrogation facilities and should simplify arrangements for both the applicant and staff involved in processing applications. The target date for implementation is April 2005.

14. Financial review

Cash funding for activities in Scotland comes from Scottish Ministers, from the EU and from income from the public forest estate managed by Forest Enterprise. Like the rest of the public sector, provision is made for resource costs which do not involve movements of cash – mainly the cost of capital invested in the public forest estate and depreciation charges for use of assets.

The Forestry Commission in Scotland's budget provisions up to 2005-06 are shown in the Forestry Commission's Corporate Plan for Scotland 2003-06.

Timber sales represent the main source of income for Forest Enterprise and its financial performance is closely linked to the strength of the round timber market. Over recent years there has been a major decline in the price of round timber. Measured in pounds in real terms, prices remain at the lowest levels ever encountered. Factors such as the strength of sterling and high sawn timber production levels in Sweden and the Baltic States have contributed to the fall in prices. There is no sign of an early recovery and our plans assume that prices will continue at their depressed level.

At the GB level, resources support work which benefits all three countries. The largest component is research and development carried out by the executive agency Forest Research (about 90%) and by other providers (about 10%). The remaining expenditure is on protecting Britain's trees from pest and diseases, representing British interests on the international stage, and other GB-wide work including the costs of the Board of Forestry Commissioners, the development of the timber market, and the development and promotion of standards for sustainable forest management.

In Scotland, woodland grants are used to support protection and expansion of forests. Historically it is planned to spend approximately 70% of grants on forestry expansion and the remainder on protecting and improving existing forests and woodlands. Following the recent review, to ensure the grants are spent in the way which best implements the Scottish Forestry Strategy, it is planned to move towards a 50/50 distribution of expenditure.

Foreword (continued)

Management

15. Ministers

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

Ross Finnie MSP	Minister for Environment and Rural Development
Allan Wilson MSP	Deputy Minister for Environment and Rural Development

16. Permanent Head of the Department and Forestry Commissioners

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

Rt Hon Lord Clark of Windermere	Non executive Chairman
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 CBE
Tony Cooper
Dr Victoria Edwards
John James OBE
Andrew Raven
Gareth Wardell

17. 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.

18. Remuneration

The salaries of Scottish Executive ministers (including junior ministers) are established by the Scotland Act 1998 (Transitory and Transitional Provisions) (Salaries and Allowances) Order 1999 (S.I. 1999/1097) which came into force on 6 May 1999.

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

19. 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.

20. Supplier Payment Policy

The Forestry Commission complies with the Government's Better Payment Practice Code. Unless otherwise stated in the contract, we aim to pay within 30 days from the receipt of goods and services or the presentation of a valid invoice, whichever is the later. A sample analysis for 2002-03 indicates that 96.8% of invoices were paid within the due date. Arrangements for handling complaints on payment performance are notified to suppliers on contracts.

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

21. Auditors

The accounts of the Forestry Commission in Scotland are audited by auditors appointed by the Auditor General for Scotland.

D J Bills CBE
Accountable Officer
17 November 2003

Statement of Forestry Commissioners' and Accountable Officer's Responsibilities

1. Under section 45(1) of the Forestry Act 1967, the Forestry Commission is required to prepare resource accounts for each financial year, in conformity with a direction by Scottish Ministers, 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. The Principal Accountable Officer has appointed the Permanent Head of Department as Departmental Accountable Officer of the Forestry Commission with overall responsibility for preparing the department's accounts and for transmitting them to the Auditor General for Scotland.
4. In preparing the accounts the Departmental Accountable Officer is required to comply with the Resource Accounting Manual prepared by the 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; and
 - ❏ prepare the accounts on the going concern basis.
5. In addition the Departmental Accountable Officer has designated the Chief Executive of Forest Enterprise as the Accountable Officer for the Agency. This appointment does not detract from the Head of Department's overall responsibility as Accountable Officer for the department's accounts.
6. The responsibilities of the Director General, as Departmental Accountable Officer, including responsibility for the propriety and regularity of the public finances for which an Accountable Officer is answerable, for keeping proper records and for safeguarding the department's assets, are set out in the Memorandum to Accountable Officers from the Principal Accountable Officer.

Statement on Internal Control

1. As Departmental Accountable 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.
2. 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.
3. 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. This process has been in place for the year ended 31 March 2003 and up to the date of approval of the annual report and accounts and accords with guidance from Scottish Ministers.
4. 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 and we have carried out a full risk and control assessment before reporting on the year ending 31 March 2003.
5. As Departmental Accountable Officer, I also have responsibility for reviewing the effectiveness of the system of internal control. The Forestry Commission established the following processes which operated during the financial year:
 - ❏ The Board of Commissioners, the Management Board and the Policy Board each met monthly to consider the plans and strategic direction of the Commission. Boards received regular reports from managers on key projects. The risk management policy ensured that the Management Board included risk management within its remit and formally tasked it with its review.
 - ❏ The Forestry Commission had an overarching Audit Committee chaired by a non-executive Forestry Commissioner. Its remit included 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.
 - ❏ The Forestry Commission has an Internal Audit Unit, which operates to Government Internal Audit Standards. 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.
 - ❏ Control of certain activities is delegated to the Forestry Commission's agencies, Forest Enterprise and Forest Research. In respect of those I place reliance on the Statements on Internal Control made by the Chief Executives and on their annual internal control reports provided to me.

Statement on Internal Control (continued)

- ❏ The topic of risk management was introduced into a series of financial awareness seminars attended by staff of all grades with financial responsibilities. The series was completed by December 2002 and the seminar has now become part of our internal training prospectus available to all staff.
6. 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.
7. From 1 April 2003 the Forestry Commission has appointed new Directors for England, Scotland and Wales. The Directors will assume responsibility for all the Forestry Commission's activities in the relevant country, in particular policy making, grant-aiding, regulation and the management of the forest estate. The move follows the outcome of a wide-ranging interdepartmental review of the administrative arrangements for developing sustainable forestry policies post-devolution. The system of internal control has been re-designed to reflect the change in structure and will involve:
- ❏ The Board of Commissioners and the Forestry Commission Executive Board will meet regularly to consider plans and strategic direction of the Commission. National Committees and Country Executive Boards will meet regularly to consider the plans and strategic direction for each country. Boards will receive regular reports from managers on key projects.
 - ❏ The overarching Audit Committee will include one non-executive Commissioner from each country. Its remit will include advice to me on the effectiveness of risk management and control throughout the Commission and its agencies. Each country (and Forest Research) will operate its own internal control committee to advise the Accounting/Accountable Officer on the effectiveness of risk management and control.
 - ❏ Country Executive Board members will receive a briefing on corporate governance and risk management.
 - ❏ Separate risk registers will operate for each country, the forest management agency within each country, Forest Research and the Great Britain core department.

D J Bills CBE
Accountable Officer
17 November 2003

Auditor's Report to the Scottish Parliament and the Auditor General for Scotland



I have audited the financial statements on pages 74 to 97 under the Forestry Act 1967. The financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets, and in accordance with the accounting policies set out on pages 80 to 83.

This report is made solely to the parties to whom it is addressed in accordance with the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice approved by the Auditor General and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies prepared by Audit Scotland, dated July 2001.

Respective responsibilities of the Commission, the Accountable Officer and Auditor

As described on page 68 the Commission and Accountable Officer are responsible for the preparation of the financial statements and for ensuring the regularity of expenditure and receipts. The Commission and Accountable Officer are also responsible for the preparation of the other contents of the Annual Report. My responsibilities, as independent auditor, are established by the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice approved by the Auditor General for Scotland, and guided by 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 Forestry Act 1967 and directions made thereunder by the Scottish Ministers and whether, in all material respects:

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

I also report if, in my opinion, the Foreword is not consistent with the financial statements, if the Commission has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

I review whether the statement on page 69 to 70 complies with Scottish Executive guidance on statements on the system of internal control. I report if, in my opinion, the statement does not comply with the guidance, or if the statement is misleading or inconsistent with other information I am aware of from my audit. I am not required to consider whether the statement covers all risks and controls, or form an opinion on the effectiveness of the Commission's corporate governance procedures or its risk and control procedures.

Auditor's Report to the Scottish Parliament and the Auditor General for Scotland (continued)

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

Basis of audit opinions

I conducted my audit in accordance with the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice, which requires compliance with relevant 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 expenditure and receipts shown in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Commission and Accountable Officer in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Commission'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 fraud or other irregularity or error, and that, in all material respects, the expenditure and receipts shown in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinions

Financial statements

In my opinion the financial statements give a true and fair view of the state of affairs of the Forestry Commission in Scotland at 31 March 2003 and of the net resource outturn, resources applied to aims, recognised gains and losses and cash flows for the year then ended and have been properly prepared in accordance with the Forestry Act 1967 and directions made thereunder by the Scottish Ministers.

Regularity

In my opinion, in all material respects:

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

Gillian Woolman ACA
Chief Auditor
Audit Scotland, Osborne House
Osborne Terrace, Edinburgh EH12 5HG
18 November 2003

Schedule 1

Summary of Resource Outturn for the year ended 31 March 2003

		2002-03 Estimate			2002-03 Outturn			2002-03	2001-02
		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		83,157	–	83,157	82,388	–	82,388	769	73,297
Net cash requirement		40,390	–	40,390			39,200	1,190	37,505
Reconciliation of resources to net cash requirement									
	Note	£000	£000	£000	£000	£000	£000	£000	£000
Net total resources				83,157			82,388	769	73,297
Capital:									
Purchase of fixed assets	6			–			62	(62)	23
Investments				–			–	–	–
Non-operating cost A in A:				–			–	–	–
Accruals adjustments:									
Non-cash items	3			(182)			(133)	(49)	(159)
Changes in working capital other than cash	8			–			(1,227)	1,227	420
Changes in creditors falling due after more than one year				–			–	–	–
Use of provision				–			–	–	–
Non-cash inter-country transfers	13			–			10	(10)	(160)
Other adjustments:									
Adjustment of FE net deficit to financing				(42,585)			(41,900)	(685)	(35,916)
Net cash requirement				40,390			39,200	1,190	37,505

The notes on pages 80 to 97 form part of these accounts.

Summary of Resource Outturn
for the year ended 31 March 2003

Explanation of the variance between Estimate and Outturn (net total resources):

- (i) An underspend of £1.6 million on Forestry Commission net expenditure through lower grant expenditure during a review of the Woodland Grant Scheme, offset by reduced EU receipts as a consequence.
- (ii) Forest Enterprise cost of capital was below estimate by £15.7 million because of a significantly lower valuation of the forest estate than expected. This was counterbalanced by revaluation reserve adjustments and loss on impairment of assets of £12.0 million and £1.1 million respectively charged to the income and expenditure account for Forest Enterprise.

Explanation of the variance between Estimated net cash requirement and Outturn (net cash requirement):

- (i) An underspend on capital of £2.0 million to offset reduced income from sale of timber.
- (ii) Larger movements in working capital than included in the estimates, mainly from movement in debtors for EU funds.

Prior-period adjustments:

No explanation required.

Analysis of income payable to the Consolidated Fund

	2002-03		2001-02	
	Income £000	Receipts £000	Income £000	Receipts £000
Income from fees not classified as A in A	-	-	-	-
Income from the sale of assets not classified as A in A	-	-	-	-
	-	-	-	-

Actual outturn – resources:

Actual amount net resources outturn £82,387,960.04. Actual amount of savings in resources over Estimate £769,039.96.

Actual outturn – cash:

Net cash requirement: Outturn net requirement £39,200,450.70 which is £1,189,549.30 less than Estimate.

The notes on pages 80 to 97 form part of these accounts.

Schedule 2

Operating Cost Statement

for the year ended 31 March 2003

	Note	2002-03		2001-02	
		£000	£000	£000	£000
Administration Costs					
Staff costs	2		2,627		2,455
Other administration costs	3		2,953		3,769
Gross Administration Costs			5,580		6,224
Operating income	3		(132)		(10)
Net Administration Costs			5,448		6,214
Programme Costs:					
Request for Resources 1					
Expenditure	4	82,501		74,349	
Less income	4	(5,561)		(7,266)	
Net Programme Costs			76,940		67,083
Net Operating Costs	5		82,388		73,297
Net Resource Outturn	5		82,388		73,297

Statement of Recognised Gains and Losses

for the year ended 31 March 2003

	Note	2002-03		2001-02	
		£000	£000	£000	£000
Revaluation surplus/(deficit) for the year	14		(2)		2
In year movement in FE revaluation	14		(121,363)		(25,216)
Total recognised gains and losses for the year			(121,365)		(25,214)

There have been no acquisitions and discontinued operations during the year.

The notes on pages 80 to 97 form part of these accounts.

Schedule 3

Consolidated Balance Sheet

as at 31 March 2003

	Note	2002-03		Restated 2001-02	
		£000	£000	£000	£000
Fixed Assets					
Tangible assets	6	116		91	
Intangible assets		–		–	
Investments	7	411,524		544,097	
			411,640		544,188
Debtors falling due after more than one year	10		27		46
Current Assets					
Stocks	9	–		–	
Debtors	10	1,093		2,550	
Cash at bank and in hand	11	1,190		1,295	
		2,283		3,845	
Creditors (amounts falling due within one year)	12	(1,986)		(2,340)	
Net Current Assets			297		1,505
Total assets less current liabilities			411,964		545,739
			411,964		545,739
Taxpayers' equity:					
General fund	13		401,875		414,285
Revaluation reserve	14		10,089		131,454
			411,964		545,739

The notes on pages 80 to 97 form part of these accounts.

D J Bills CBE
Accountable Officer
17 November 2003

Schedule 4

Cash Flow Statement

as at 31 March 2003

	Note	2002-03 £000	2001-02 £000
Net cash outflow from operating activities		(39,138)	(37,482)
Capital expenditure and financial investment	6	(62)	(23)
Financing		39,095	37,505
Decrease in cash in the period	11	(105)	–

Reconciliation of operating cost to operating cash flows

Net operating cost		(82,388)	(73,297)
Adjustments for non-cash transactions	3/4	42,033	36,075
Non-cash inter-country transfers	13	(10)	160
Adjustments for movements in working capital other than cash	8	1,227	(420)
Use of provisions		–	–
Net cash outflow from operating activities		(39,138)	(37,482)

Analysis of capital expenditure and financial investment

Tangible fixed asset additions	6	(62)	(23)
Proceeds of disposal of fixed assets		–	–
Loans to other bodies		–	–
Repayment of loans to other bodies		–	–
Net cash outflow from investing activities		(62)	(23)

Analysis of financing and reconciliation to the net cash requirement

Net financing from Scottish consolidated fund (supply)		39,095	37,505
Increase in cash	11	105	–
Net cash requirement		39,200	37,505

Amount of grant actually issued to support the net financing requirement = £39,095,325.14.

The notes on pages 80 to 97 form part of these accounts.

Schedule 5

Resources by Departmental Aim and Objective

for the year ended 31 March 2003

	2002-03			2001-02		
	Gross		Net	Gross		Net
	expenditure	Income	expenditure	expenditure	Income	expenditure
	£000	£000	£000	£000	£000	£000
Objectives						
Maximise the value to the Scottish economy of the wood resource becoming available over the next 20 years	8,068	(21)	8,047	13,320	(16)	13,304
Create a diverse forest resource of high quality that will contribute to the economic needs of Scotland throughout the 21st century and beyond	55,867	(1,686)	54,181	38,694	(1,986)	36,708
Make sure that Scotland's trees, woods and forests make a positive contribution to the environment	10,743	(2,417)	8,326	13,915	(3,259)	10,656
Create opportunities for more people to enjoy trees, woods and forests in Scotland	9,253	(1,045)	8,208	9,876	(1,324)	8,552
Help communities benefit from woods and forests	4,150	(524)	3,626	4,768	(691)	4,077
Net Operating Costs	88,081	(5,693)	82,388	80,573	(7,276)	73,297

The objective, 'create a diverse forest resource of high quality', includes revaluation reserve adjustments and loss on impairment amounting to £14,154,000 and £1,073,000 respectively in gross expenditure in 2002-03.

See Note 15.

The notes on pages 80 to 97 form part of these accounts.

Notes to the Resource Accounts

1. Statement of Accounting Policies

The financial statements have been prepared in accordance with the 2002-03 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. Where RAM permits a choice of accounting policy, the accounting policy which has been judged to be most appropriate to the particular circumstances of the department for the purpose of giving true and fair view has been selected. 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 Scotland. 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 Scotland accounts are published separately in the Forestry Commission annual report and accounts for Scotland with the net funding and net worth of FE in Scotland reflected in these accounts.

(c) Tangible Fixed Assets

Legal ownership of all land and buildings is vested in the Scottish Executive 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 are reassessed at 3-yearly intervals by professionally qualified staff employed by the Forestry Commission following the principles set out in the RICS Appraisal and Valuation Standards. Wherever possible, they are valued on the basis of 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, they are assessed on the basis of depreciated replacement cost (DRC). They are restated to current value in the intervening years using indices provided by the District Valuer.

Legal ownership of other tangible fixed assets, primarily office equipment, is vested in the Forestry Commissioners. Office equipment values are restated to current value annually using a general price index supplied by the Office for National Statistics.

The normal threshold for the capitalisation of assets is £2,000 for buildings and £1,500 for office equipment. 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	– 15 to 40 years
Research and office equipment	– 5 to 20 years

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

(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 Scotland 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 2003.

(g) Stocks

Stocks of publications 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.

(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

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

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 Scotland, together with associated operating income. Programme costs include payments of grants and the net funding of FE in Scotland.

(k) **European Union (EU) Funding**

The Forestry Commission acts as an agent of the EU for third party grants paid from Objective 1 and Woodland Grant Scheme payments made under the national European Agricultural Guarantee and Guidance Fund. 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) **Capital Charges**

Charges, reflecting the cost of capital utilised by the core department in Scotland and Forest Enterprise in Scotland, 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% in real terms on the average carrying amount of all assets less liabilities, except for cash balances held by the Office of the Paymaster General and amounts due to be surrendered to the Scottish Consolidated Fund. The Government's rate changed to 3.5% with effect from 1 April 2003.

(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

Past and present employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS) which is a defined benefit scheme and is unfunded. The Forestry Commission recognises the expected cost of providing pensions on a systematic and rational basis over the period during which it benefits from employees' services by payment to the PCSPS of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the PCSPS.

Further information on pensions is contained in Note 2 to the accounts.

(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 and 5 members of staff who left during 2001-02 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.

(q) Operating Leases

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

(r) Prior-year adjustments

The prior year comparatives have been adjusted to reflect changes in accounting policies as per FRS3.

Cash at bank and in hand

Previous year's accounts disclosed all cash balances except petty cash in the Forestry Commission England/GB accounts. To properly reflect funding from each of the three administrations the closing cash balance has been included in the appropriate country accounts. The prior year comparatives have been adjusted accordingly.

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 3,091 (3,007 in 2001-02). The Forestry Commission in Scotland employed an average of 84 (81 in 2001-02) with a further 563 staff (547 in 2001-02) employed on a Great Britain basis, which includes Forest Research, to provide support to Forestry Commission activities in all three countries and to its agencies. The aggregate payroll costs were as follows:

	2002-03	2001-02
	£000	£000
Forestry Commission in Scotland		
Wages and salaries	2,178	1,995
Social security costs	152	148
Other pension costs	297	312
Total	2,627	2,455

Staff are covered by the Principal Civil Service Pension Scheme (PCSPS). The PCSPS is an unfunded multi-employer defined benefit schemes 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 2002-03, employers' contributions of £297,000 were payable to the PCSPS (£95,000 in 2001-02) at one of the four rates in the range 12 to 18.5% of pensionable pay, based on salary bands. Rates will remain the same for the next year, 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.

Employees joining after 1 October 2002 could opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employers' contributions of £nil were paid to one or more of a panel of four appointed stakeholder pension providers. Employer contributions are age-related and range from 3 to 12.5% of pensionable pay. Employers also match employee contributions up to 3% of pensionable pay. In addition, employer contributions of £nil, 0.8% of pensionable pay, were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees.

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

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 travel season tickets;
- (iii) car provision scheme.

The advances of salary for house purchase scheme had 6 loans with an outstanding balance of £2,500 or more to individual members of staff at 31 March 2003. The total value of these loans was £30,000.

(b) Board of Commissioners

The salary and pension entitlements of the Board of Commissioners for the whole of the Forestry Commission, excluding the FE Chief Executive whose remuneration is in the FE accounts, were as follows:

	Age Years	Salary £000	Real increase in pension at age 60 £000	Total accrued pension at age 60 at 31 March 2003 £000	Benefits in kind £	Employer contribution to partnership pension account including risk benefit cover (note (d)) £
2002-03						
Chairman						
Rt Hon Lord Clark of Windermere	63	45-50	N/A	N/A	–	–
Executive Commissioners						
David Bills CBE	a 55	110-115	0.0-2.5	5-10	–	–
Duncan Macniven TD	a 52	80-85	2.5-5.0	30-35	–	–
Non-Executive Commissioners						
Anthony Bosanquet	59	5-10	N/A	N/A	–	–
Tom Bruce Jones CBE						
(to 31 March 2003)	61	5-10	N/A	N/A	–	–
Tony Cooper	59	0-5	N/A	N/A	–	–
Dr Victoria Edwards	39	5-10	N/A	N/A	–	–
John James OBE	53	5-10	N/A	N/A	–	–
Andrew Raven	44	5-10	N/A	N/A	–	–
Gareth Wardell	58	5-10	N/A	N/A	–	–

Notes to the Resource Accounts (continued)

	Age Years	Salary £000	Real increase in pension at age 60 £000	Total accrued pension at age 60 at 31 March 2003 £000	Benefits in kind £	Employer contribution to partnership pension account including risk benefit cover (note (d)) £
2001-02						
Chairman						
Sir Peter Hutchison	66	30-35	N/A	N/A	–	–
Rt Hon Lord Clark of Windermere	62	5-10	N/A	N/A	–	–
Executive Commissioners						
David Bills CBE	54	115-120	0.0-2.5	5-10	–	–
Duncan Macniven TD	51	75-80	0.0-2.5	25-30	–	–
Non-Executive Commissioners						
Anthony Bosanquet	58	5-10	N/A	N/A	–	–
Tom Bruce Jones CBE	60	5-10	N/A	N/A	–	–
Tony Cooper	58	5-10	N/A	N/A	–	–
Dr Victoria Edwards	38	5-10	N/A	N/A	–	–
John James OBE	52	5-10	N/A	N/A	–	–
Andrew Raven	43	5-10	N/A	N/A	–	–
Gareth Wardell	57	5-10	N/A	N/A	–	–

(c) **Senior Managers**

The salary and pension entitlements of senior managers for the whole of the Forestry Commission, excluding those who serve on the Board of Commissioners, were as follows:

		Age Years	Salary £000	Real increase in pension at age 60 £000	Total accrued pension at age 60 at 31 March 2003 £000	Benefits in kind £	Employer contribution to partnership pension account including risk benefit cover (note (d)) £
2002-03							
Senior GB staff							
Frank Strang	a	41	55-60	0.0-2.5	10-15	–	–
Jim Anderson	b	58	55-60	0.0-2.5	25-30	–	–
Tim Rollinson	a	49	75-80	2.5-3.0	20-25	–	–
Roger Herbert	a	54	60-65	0.0-2.5	25-30	–	–
Jim Dewar (to 30 May 2002)		55	10-15	N/A	N/A	–	–
Dr Peter Freer-Smith (from 30 May 2002)	a	47	60-65	0.0-2.5	10-15	£800	–
Chief Conservator Scotland							
David Henderson-Howat	a	49	65-70	0.0-2.5	15-20	–	–
2001-02							
Senior GB staff							
Frank Strang		40	50-55	0.0-2.5	10-15	–	–
Jim Anderson		57	50-55	0.0-2.5	20-25	–	–
Tim Rollinson		48	65-70	0.0-2.5	20-25	–	–
Roger Herbert		53	55-60	0.0-2.5	25-30	–	–
Jim Dewar		54	60-65	0.0-2.5	25-30	–	–
Chief Conservator Scotland							
David Henderson-Howat		48	55-60	0.0-2.5	15-20	–	–

a opted to join classic scheme

b opted to join premium scheme

c opted to join classic plus scheme

d opted to join partnership pension account

Notes to the Resource Accounts (continued)

Salary

'Salary' includes gross salary and performance bonuses.

Pension

Pension benefits are consistent with other Forestry Commission employees and are provided through the Principal Civil Service Pension Scheme (PCSPS). From 1 October 2002, civil servants may be in one of three statutory based "final salary" defined benefit schemes (classic, premium, and classic plus). New entrants after 1 October 2002 may choose between membership of premium or joining a good quality "money purchase" stakeholder based arrangement with a significant employer contribution (partnership pension account).

(a) Classic Scheme

Benefits accrue at the rate of 1/80th of pensionable salary for each year of service. In addition, a lump sum equivalent to three years' pension is payable on retirement. Members pay contributions of 1.5% of pensionable earnings. 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.

(b) Premium Scheme

Benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum, but members may commute some of their pension to provide a lump sum up to a maximum of 3/80ths of final pensionable earnings for each year of service or 2.25 times pension if greater (the commutation rate is £12 of lump sum for each £1 of pension given up). For the purposes of pension disclosure the tables assume maximum commutation. Members pay contributions of 3.5% of pensionable earnings. On death, pensions are payable to the surviving spouse or eligible partner at a rate of 3/8ths the member's pension (before any commutation). On death in service, the scheme pays a lump-sum benefit of three times pensionable earnings 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. Where the member's ill health is such that it permanently prevents them undertaking any gainful employment, service is enhanced to what they would have accrued at age 60.

(c) **Classic Plus Scheme**

This is essentially a variation of premium, but with benefits in respect of service before 1 October 2002 calculated broadly as per classic.

Pensions payable under classic, premium, and classic plus are increased in line with the Retail Prices Index.

(d) **Partnership Pension Account**

This is a stakeholder-type arrangement where the employer pays a basic contribution of between 3% and 12.5% (depending on the age of the member) into a stakeholder pension product. The employee does not have to contribute but where they do make contributions, these will be matched by the employer up to a limit of 3% (in addition to the employer's basic contribution). Employers also contribute a further 0.8% of pensionable salary to cover the cost of risk benefit cover (death in service and ill health retirement). The member may retire at any time between the ages of 50 and 75 and use the accumulated fund to purchase a pension. The member may choose to take up 25% of the fund as a lump sum.

Benefits in kind

The monetary value of benefits in kind covers any benefits provided by the employer and treated by the Inland Revenue as taxable income.

Loans to senior GB staff

Loans are made to senior GB staff in the form of an advance of salary for house purchase. The loans are made on the same terms as are available to other staff. The amount outstanding at 31 March 2003 amounted to £4,000 (£21,000 at 31 March 2002). Permission to disclose details had not been requested.

3. Other Administrative Costs

	2002-03	2001-02
	£000	£000
Travel and subsistence	175	198
Other expenditure	2,645	3,412
Other income	(132)	(10)
Sub-total	2,688	3,600
Non-cash costs		
Cost of capital	63	50
Depreciation	36	55
Loss on sale of assets	2	24
Notional audit fees – audit work	32	30
Sub-total	133	159
Total	2,821	3,759

Notes to the Resource Accounts (continued)

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

A number of changes, arising from the Forestry Devolution Review, will take place with effect from 1 April 2003. A slimmed down Forestry Commission centre in Edinburgh will continue to provide central services such as personnel, training, information technology, accountancy services and internal audit where it is cost-effective or there are sound policy or practical reasons for doing so. Transitional charging mechanisms will be in place for 2003-04 with new service level agreements in place by 1 April 2004.

4. Programme Expenditure and Income

	2002-03	2001-02
	£000	£000
Grants paid to private woodland owners	13,975	17,374
Publications and other expenditure	599	457
Sub-total	14,574	17,831
Forest Enterprise funding	67,927	56,518
Total programme expenditure	82,501	74,349
Planting grant co-financing from EU	5,401	7,261
Sundry income	160	5
Total programme income	5,561	7,266

Forest Enterprise in Scotland incurred a deficit on its income and expenditure account of £67,927,000 (£56,518,000 in 2001-02). It received cash funding of £26,027,000 (£20,602,000 in 2001-02) from the Forestry Commission and the difference is shown under other adjustments in Schedule 1.

The difference comprises:

	2002-03 £000	2001-02 £000
Capital		
Net capital	(2,659)	(1,691)
Accruals adjustments		
Cost of capital	28,669	33,497
Non cash items	16,756	1,920
Changes in working capital, including cash	(1,423)	1,781
Use of provision	557	409
Adjustment of FE deficit to financing	41,900	35,916

5. Reconciliation of net operating cost to control total and net resource outturn

	2002-03 £000	2001-02 £000
Net operating cost for the year	82,388	73,297
Remove non-supply expenditure	-	-
Add non-supply income including CFERs	-	-
Add net deficit on revaluations	-	-
Net resource outturn	82,388	73,297

Notes to the Resource Accounts (continued)

6. Tangible Fixed Assets

	Machinery Plant and Equipment £000	Total £000
Cost or valuation:		
At 1 April 2002	541	541
Additions	62	62
Transfers	6	6
Disposals	(20)	(20)
Revaluation to current prices	(3)	(3)
At 31 March 2003	586	586
Depreciation:		
At 1 April 2002	450	450
Provided during year	36	36
Transfers	3	3
Disposals	(18)	(18)
Revaluation to current prices	(1)	(1)
At 31 March 2003	470	470
Net Book Value at:		
31 March 2003	116	116
1 April 2002	91	91

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. They were restated to current values as at 31 March 2003 using indices supplied by the District Valuer. Land and buildings assets comprise both freehold and leasehold assets.

The machinery, plant and equipment assets were restated to current values as at 31 March 2003 using indices supplied by the Office for National Statistics.

7. Investments

Forest Enterprise in Scotland is a public corporation for national accounting and as such is outside the departmental boundary for resource accounting. Its net book value of £411,524,000 (£544,097,000 for 2001-02) is shown as an investment in the balance sheet of the Forestry Commission in Scotland.

8. Movements in working capital other than cash

	2002-03	2001-02
	£000	£000
Decrease/(Increase) in Stocks	–	17
Decrease/(Increase) in Debtors	1,476	(1,048)
(Decrease)/Increase in Creditors:		
amounts falling due within one year	(249)	611
Movements in working capital other than cash	1,227	(420)

9. Stocks and Work in Progress

	2002-03	2001-02
	£000	£000
Stocks (publications)	–	–
Total	–	–

10. Debtors

	2002-03	2001-02
	£000	£000
Amounts falling due within one year:		
Trade debtors	1,055	2,535
Other debtors	11	15
Prepayments	27	–
	1,093	2,550
Amounts falling due after more than one year:		
Other debtors	27	46
Total	1,120	2,596

11. Cash at Bank and in Hand

	2002-03	Restated 2001-02
	£000	£000
Balance with Office of Paymaster General	1,190	1,295
Cash at commercial banks and cash in hand	–	–
Total	1,190	1,295
Amounts issued from the Scottish Executive for supply but not spent at year end	1,190	1,295

Notes to the Resource Accounts (continued)

12. Creditors

	2002-03	2001-02
	£000	£000
Amounts falling due within one year:		
Trade creditors	593	759
Other creditors	203	286
Payments received on account	–	–
Amounts issued from the Scottish consolidated fund (supply) but not spent at year end	1,190	1,295
Total	1,986	2,340

13. Reconciliation of net operating cost to changes in general fund

	2002-03	2001-02
	£000	£000
Net operating cost for the year (Schedule 2)	(82,388)	(73,297)
Net Parliamentary funding	39,095	38,800
Settlement of previous year creditor for cash unspent	1,295	–
	(41,998)	(34,497)
Adjustment for consolidated FE totals (Note 4)	41,900	35,916
	(98)	1,419
Notional cost of capital	63	50
Transfer of fixed assets from/to other forestry bodies	3	(30)
Non-cash inter-country transfers	(10)	160
Notional audit fees	32	30
Amounts issued from the Scottish Executive for supply but not spent at year end 2001-02	–	(1,295)
Amounts issued from the Scottish Executive for supply but not spent at year end 2002-03	(1,190)	–
	(1,200)	334
In year movement in FE general fund	(11,210)	(3,163)
Net increase/(decrease) in General Fund	(12,410)	(2,829)
General Fund as at 31 March 2002	414,285	417,114
General Fund as at 31 March 2003 (Schedule 3)	401,875	414,285

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 2002-03 is £10,000.

14. Revaluation Reserve

	2002-03	2001-02
	£000	£000
Balance at 1 April 2002	131,454	156,668
FC revaluation surplus/(deficit) for the year	(2)	2
In year movement in FE revaluation reserve	(121,363)	(25,216)
Balance at 31 March 2003	10,089	131,454

15. Schedule 5

Expenditure in Schedule 5 comprises the direct costs incurred by the Forestry Commission in Scotland's national office and indirect costs which have been allocated by individual cost centres or apportioned pro rata to the directly attributable costs. An analysis was undertaken to determine the costs attributable to each of the objectives for the core department. In a multi-benefit forestry strategy where many activities will contribute to more than one objective, the allocation of costs has been undertaken by senior staff in each area based on an informed judgement of each activity. 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:

	2002-03	2001-02
	No	No
Maximise the value to the Scottish economy of the wood resource becoming available over the next 20 years.	9	23
Create a diverse forest resource of high quality that will contribute to the economic needs of Scotland throughout the 21st century and beyond.	53	37
Help communities benefit from woods and forest.	9	7
Create opportunities for more people to enjoy trees, woods and forests in Scotland.	9	6
Make sure that Scotland's trees, woods and forests make a positive contribution to the environment.	4	8
Total	84	81

Notes to the Resource Accounts (continued)

16. Capital commitments

There were no capital commitments at 31 March 2003.

17. Commitments under leases

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:

	2002-03	2001-02
	£000	£000
Building leases expiring within:		
One year	22	–
Two to five years	13	26
More than five years	51	36
Total	86	62

18. Other financial commitments

Following approval of a management plan for planting proposals, the Forestry Commission undertakes to pay planting grants in three instalments. At 31 March 2003, the Forestry Commission was committed under signed plans to the payment of future instalments of planting and replanting grants amounting to £7.6 million (£24.9 million in 2001-02). Grants for the management of existing woodlands are payable annually in arrears during the five-year currency of an approved plan, so long as specific objectives and age criteria are met. Commitments to future payments in respect of approved plans amounted to £8.7 million at 31 March 2003 (£13.6 million in 2001-02). Applications for planting and replanting grants, awaiting approval at 31 March 2003, amounted to £10.4 million (£nil in 2001-02).

19. Contingent Liabilities

There were no contingent liabilities at 31 March 2003 for damages caused to other persons' property or for compensation for personal injury to employees (£nil as at 31 March 2002).

20. Losses statement

Losses totalled £1,026,000 from 46 cases (£267,000 from 74 cases in 2001-02). It included a claim abandoned of £721,000 relating to woodland grants reclaimed from Highland Woodlands Company which went into liquidation in 1996.

Special payments totalled £175,000 from 47 cases (£269,000 in 54 cases in 2001-02).

Losses and special payments include those incurred in FE Scotland.

21. 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 HM 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.

In the year to 31 March 2003, Forest Enterprise entered into the following material transactions involving the non-executive Commissioners of the Forestry Commission:

Mr Tom Bruce Jones is a director of James Jones and Sons Ltd which purchased approximately 335,770 cubic metres of timber and plants and seed at £5,978,000 from Forest Enterprise. The balance due from Mr Jones at 31 March 2003 was £nil.

22. Financial Instruments

FRS13, Derivatives and Other Financial Instruments, requires disclosure of the role which financial instruments have had during the period in creating or changing the risks an entity faces in undertaking its activities. Because of the largely non-trading nature of its activities and the way in which government departments are financed, the Forestry Commission in Scotland is not exposed to the degree of financial risk faced by business entities. Moreover, financial instruments play a much more limited role in creating or changing risk than would be typical of the listed companies to which FRS13 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 Scottish Parliament makes provision for the use of resources by the Forestry Commission in Scotland, for revenue and capital purposes, in a Budget Act for each financial year. Resources and accruing resources may be used only for the purposes specified and up to the amounts specified in the Budget Act. The Act also specifies an overall cash authorisation to operate for the financial year. The Forestry Commission in Scotland is not, therefore, exposed to significant liquidity risks.

Interest-rate risk

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

Foreign currency risk

The Forestry Commission in Scotland is not exposed to foreign currency risk.

Fair Values

There is no difference between book value and fair value for the cash at bank shown in Note 11.

Accounts Direction given by the Scottish Executive

Direction by the Scottish Ministers in accordance with section 45(1) of the Forestry Act 1967.

1. The Forestry Commission shall prepare resource accounts in respect of its activities in Scotland for the financial year ended 31 March 2000 and subsequent financial years, shall comply with the accounting principles and disclosure requirements of the edition of the Resource Accounting Manual which is in force for the year for which the resource accounts are prepared.
2. The statement of account shall give a true and fair view of the net resource outturn, resources applied to objectives, recognised gains and losses and cash flows for the financial year, and the state of affairs as at the end of the financial year.
3. This direction shall be reproduced as an appendix to the resource accounts.

Signed by the authority of the Scottish Ministers.

P S Collings
28 November 2000

Forest Enterprise in Scotland accounts for the year ended 31 March 2003

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Foreword

1. Accounts Direction

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

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.

The status of Forest Enterprise remained unaltered following devolution except that it has produced three separate accounts for activities in England, Scotland and Wales from 1999-2000 onwards. The agency ceased to operate on 31 March 2003 and its functions were transferred to separate bodies in each country on 1 April 2003. This was a direct result of the recent GB-wide Forestry Devolution Review agreed by the three Forestry Ministers which called for tighter integration of Forestry Commission policy development and delivery with the three countries' other rural policy work, and the decentralisation of Forest Enterprise. Each new agency will have a Chief Executive reporting to the Forestry Commission's Director in that country. The accounts continue to be prepared on a going concern basis because, despite the agency ceasing to operate, the functions have transferred to separate agencies.

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 each country agency. This work is crucial to the agencies 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 the agencies can make to delivering the forestry strategies, and other related agenda, of the Scottish, English and Welsh administrations.

Details of the financial performance targets set for Forest Enterprise in Scotland by the Forestry Commissioners and achievement against those targets are shown in Note 21 to the accounts.

4. Review of Principal Activities

It has been a generally better year for the Great Britain wood based panel sector and increasing prices in some sawnwood grades. Weak demand due to the loss of key markets, increased availability of timber on the market and continued downward pressure on pallet, fencing, chipwood, co-product prices has meant that roundwood prices have continued to suffer. Over the year average log prices fell by around 7% and standing prices by 18% taking them to an all time low. Prices for sawlogs now stand at 54% of their 1995 value, while standing timber are currently only 27% of their 1995 value.

The recovery from the 2001 Foot and Mouth outbreak was complete with recreation facilities being available for the full year and showing much improved income. The refurbishment of the Forest Holidays cabin site at Strathyre was underway using £3 million of funding obtained from the Scottish Executive. The site was closed for part of the year resulting in a substantial reduction in income but this is expected to recover in 2003-04. Development activities, particularly on windfarms, continued to provide substantial income.

Partnership opportunities were developed whenever possible, including the new World Cup Mountain Trail Bike route at Lochaber and the first stage of the Seven Stanes Mountain Bike project in South Scotland.

Further information on the activities of Forest Enterprise in Scotland is contained in the Annual Report.

5. Result for the year

Forest Enterprise in Scotland incurred a net deficit on its Income and Expenditure Account of £67,927,000 compared to £56,518,000 in 2001-02. This included revaluation reserve adjustments and loss on impairment of Forest Holiday assets amounting to £14,154,000 and £1,073,000 respectively, written to the income and expenditure account against Management and Development of Estate as described in Note 8 of the Foreword and Notes 1B and 13 to the Accounts. Without these adjustments, the net deficit would have reduced to £52,700,000.

Foreword (continued)

A comparison of income and expenditure with the previous year shows that:

- ❏ The operating deficit increased by £1,130,000, excluding the revaluation reserve adjustments and loss on impairment of £14,154,000 and £1,073,000 respectively. Operating income was maintained at the 2001-02 level because the continued reduction in timber income from reduced prices and poor market conditions was counterbalanced by increased Estate Management income from windfarms and phone mast sites. Operating expenditure increased by £1,226,000 to meet increased programmes of restocking and deer management.
- ❏ Net spending on recreation, conservation and heritage increased by £224,000. Income improved by £621,000 reflecting full recovery from the Foot and Mouth outbreak in 2001-02 and significant European Regional Development Fund partnership income. Expenditure increased by £845,000 as a result of spending on additional recreation projects supported by partnership funding.
- ❏ A programme of property sales generated a surplus of £114,000 compared with a loss of £230,000 in 2001-02.
- ❏ Cost of capital reduced by £4,828,000, primarily as a result of the reduced asset value of the forest estate (see Note 8 of the Foreword).

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 £26,027,000 compared to £20,602,000 in 2001-02. Net capital expenditure increased by £968,000 from significant expenditure on the refurbishment of Forest Holidays cabins offset by fewer purchases of vehicles and machinery.

6. Post Balance Sheet Events

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

7. Future Developments

With Forest Enterprise ceasing to operate on 31 March 2003, 2003-04 will be a transitional year during which a new agency will be established to manage the forest estate in Scotland. It has been necessary to carry out a formal review of the most appropriate location of the Head Office of the management agency, Forest Enterprise Scotland, in accordance with the Scottish Executive's relocation policy. In August 2003, Ministers agreed that the best option is to retain both the Inverness and Dumfries offices but that the Inverness office will be designated as the Head Office.

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

8. Fixed Assets

The forest estate was subject to a full professional valuation as at 31 March 2003 by a country valuation panel comprising John Clegg and Co., Bidwells and professionally qualified land agents employed by the Forestry Commission. Its current existing use value of £357,446,000 has fallen by 50% since the previous revaluation in 1998 which reflects the significant fall in timber prices during the same five year period. £229,579,000 of the adjustment, including in year additions, disposals and transfers, was accounted for annually from 1998 using interim professional opinions. The final in year adjustment of £135,305,000 includes a fall of £134,789,000 on revaluation and has reduced the revaluation reserve for the forest estate to NIL and resulted in a charge of £3,664,000 to the income and expenditure account. A review of revaluation reserve balances held against other asset classes as at 31 March 2003 has resulted in further adjustments of £10,490,000 to comply fully with FRS11 and FRS15 from 1 April 2003. Further details are shown in Notes 1B and 13 to the Accounts.

688 hectares of non-forest land were acquired during the year. Non-forest land showed an upward revaluation of £73,000 based on the unequipped agricultural land index provided by the District Valuer.

Additions to dwellings and other buildings amounted to £530,000 compared to disposals of £661,000. The assets were revalued upwards by £1,017,000 using an index provided by the District Valuer.

The Strathyre forest cabins were demolished in year as part of a modernisation programme and the loss on disposal of £91,000 recognised through the income and expenditure account. £3,071,000 had been spent on site modernisation as at the balance sheet date but the asset under construction was subsequently valued based upon predicted levels of financial trading and the balance sheet adjusted for the impairment to date of £1,073,000.

Purchases of forestry vehicles, machinery and equipment (VME) amounted to £1,114,000 compared with net disposals and transfers of £487,000. Asset values increased by a net £21,000 on revaluation based on a valuation of specialist forestry machinery by internal professional staff and using an index provided by the Office for National Statistics for all other assets.

Additions to office machinery and equipment (OME) amounted to £114,000. OME was revalued using an index provided by the Office for National Statistics.

9. 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 through 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.

Foreword (continued)

10. Pensions

Present and past employees of the Forestry Commission are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS). The financial status of the scheme is reported in a separate PCSPS scheme statement. The Forestry Commission recognises the expected cost of providing pensions on a systematic and rational basis over the period during which it benefits from employees' services by payment to the PCSPS of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the PCSPS.

11. 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 2002-03 indicates that 96.7% of invoices were paid within the due date. Arrangements for handling complaints on payment performance are notified to suppliers on contracts.

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

12. 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.

13. 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
Craig Heaney	Director Engineering
Peter Ranken	Director Estate Management
Alan Stevenson	Head of Environment and Communications
Peter Weston	Acting Head of Forest Planning

14. Auditors

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

R McIntosh
Chief Executive and Accountable Officer
17 November 2003

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

1. Under Section 45(1) of The Forestry Act 1967, the Scottish Ministers have directed the Forestry Commission to prepare a statement of accounts for Forest Enterprise in Scotland 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 Scotland state of affairs at the year end and of its income and expenditure and cash flows for the financial year.
2. 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; and
 - ☛ prepare the financial statements on the going concern basis, unless it is inappropriate to assume that Forest Enterprise will continue in operation.
3. The Principal Accountable Officer has designated the Chief Executive of Forest Enterprise as Agency Accountable Officer for Forest Enterprise. His relevant responsibilities as Agency Accountable 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 Memorandum to Accountable Officers from the Principal Accountable Officer.

Statement on Internal Control

1. As Accountable 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.
2. 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.
3. 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. This process has been in place for the year ended 31 March 2003 and up to the date of approval of the annual report and accounts and accords with guidance from Scottish Ministers.
4. 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 Agency'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 Forest Enterprise Management Board and we have carried out a full risk and control assessment before reporting on the year ending 31 March 2003.
5. As Accountable Officer, I also have responsibility for reviewing the effectiveness of the system of internal control. The Agency established the following processes which operated during the financial year:
 - 🔍 The Forest Enterprise Management Board met monthly to consider the plans and strategic direction of the Agency. The Management Board received regular reports from managers on key projects. The risk management policy ensured that the Management Board included risk management within its remit and formally tasked it with its review.
 - 🔍 The Agency had an Audit Committee which reviewed matters concerning risk and internal control within the Agency. The Forestry Commission had an overarching Audit Committee chaired by a non-executive Forestry Commissioner. Its remit included advice on the effectiveness of risk management and control throughout the Commission and its Agencies, including Forest Enterprise. 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)

- ❏ The Forestry Commission has an Internal Audit Unit, which operates to Government Internal Audit Standards. 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.
 - ❏ The topic of risk management was introduced into a series of financial awareness seminars attended by staff of all grades with financial responsibilities. The series was completed by December 2002 and the seminar has now become part of our internal training prospectus available to all staff.
6. 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.
7. From 1 April 2003 the Forestry Commission has appointed new Directors for England, Scotland and Wales. The Directors will assume responsibility for all the Forestry Commission's activities in the relevant country, in particular policy making, grant-aiding, regulation and the management of the forest estate. The move follows the outcome of a wide-ranging interdepartmental review of the administrative arrangements for developing sustainable forestry policies post-devolution. The system of internal control has been re-designed to reflect the change in structure and will involve:
- ❏ The Board of Commissioners and the Forestry Commission Executive Board will meet regularly to consider plans and strategic direction of the Commission. National Committees and Country Executive Boards will meet regularly to consider the plans and strategic direction for each country. Boards will receive regular reports from managers on key projects.
 - ❏ The overarching Audit Committee will include one non-executive Commissioner from each country. Its remit will include advice on the effectiveness of risk management and control throughout the Commission and its agencies. Each country (and Forest Research) will operate its own internal control committee to advise the Accounting/Accountable Officer on the effectiveness of risk management and control.
 - ❏ Country Executive Board members will receive a briefing on corporate governance and risk management.
 - ❏ Separate risk registers will operate for each country, the forest management agency within each country, Forest Research and the Great Britain core department.

R McIntosh
Chief Executive and Agency Accountable Officer
17 November 2003

Auditor's Report to the Scottish Parliament and the Auditor General for Scotland



I have audited the financial statements on pages 111 to 133 under the Forestry Act 1967. These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets, and in accordance the accounting policies set out on pages 115 to 117.

This report is made solely to the parties to whom it is addressed in accordance with the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice approved by the Auditor General and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies prepared by Audit Scotland, dated July 2001.

Respective responsibilities of the Agency, the Chief Executive and Auditor

As described on page 106 the Agency and Chief Executive are responsible for the preparation of the financial statements and for ensuring the regularity of expenditure and receipts. The Agency and Chief Executive are also responsible for the preparation of the other contents of the Annual Report. My responsibilities, as independent auditor, are established by the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice approved by the Auditor General for Scotland, and guided by 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 Forestry Act 1967 and directions made thereunder by the Scottish Ministers and whether, in all material respects:

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

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 review whether the statement on page 107 complies with Scottish Executive guidance on statements on the system of internal control. I report if, in my opinion, the statement does not comply with the guidance, or if the statement is misleading or inconsistent with other information I am aware of from my audit. I am not required to consider whether the statement covers all risks and controls, or form an opinion on the effectiveness of the Agency's corporate governance procedures or its risk and control procedures.

Auditor's Report to the Scottish Parliament and the Auditor General for Scotland (continued)

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

Basis of audit opinions

I conducted my audit in accordance with the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice, which requires compliance with relevant 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 expenditure and receipts shown 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 fraud or other irregularity or error, and that, in all material respects, the expenditure and receipts shown in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinions

Financial statements

In my opinion the financial statements give a true and fair view of the state of affairs of the Forest Enterprise in Scotland at 31 March 2003 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 Forestry Act 1967 and directions made thereunder by the Scottish Ministers.

Regularity

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

Gillian Woolman ACA
Chief Auditor
Audit Scotland, Osborne House
Osborne Terrace, Edinburgh EH12 5HG
18 November 2003

Income and Expenditure Account

Income and Expenditure Account for the year Ended 31 March 2003

	Note	2002-03 £000	2001-02 £000
Operating Income			
Sales of Timber		33,961	34,313
Forest Protection and Maintenance		964	1,007
Management and Development of Estate	2b	4,478	3,987
		39,403	39,307
Operating Expenditure			
Forest Planning		3,649	4,360
Harvesting and Haulage of Timber		22,523	22,797
Forest Roads		8,620	8,294
Forest Protection and Maintenance		17,933	16,319
Management and Development of Estate	2b	18,930	3,432
		71,655	55,202
Operating Deficit		(32,252)	(15,895)
Recreation, Conservation and Heritage			
Income		2,801	2,180
Expenditure		9,921	9,076
		(7,120)	(6,896)
Operating Deficit Net of R,C & H		(39,372)	(22,791)
Surplus/(deficit) on sale of properties	4	114	(230)
Deficit		(39,258)	(23,021)
Notional cost of capital	5	(28,669)	(33,497)
Net Deficit for the year		(67,927)	(56,518)
Transferred to General Fund		(67,927)	(56,518)

There have been no acquisitions and discontinued operations during the year

The notes on pages 115 to 133 form part of these accounts.

Statement of Total Recognised Gains and Losses

Statement of Total Recognised Gains and Losses

for the year Ended 31 March 2003

	Note	2002-03 £000	2001-02 £000
Net deficit for the year		(67,927)	(56,518)
Revaluation surplus/(deficit) for the year	13	(119,506)	(25,216)
Realised revaluation surplus	13	1,857	–
Total recognised gains and losses for the year		(185,576)	(81,734)

The notes on pages 115 to 133 form part of these accounts.

Balance Sheet

Balance Sheet

as at 31 March 2003

	Note	2002-03 £000	2001-02 £000
Fixed Assets			
Tangible assets	6	402,674	536,110
Intangible assets		–	–
		402,674	536,110
Debtors falling due after more than one year	8	76	113
Current Assets			
Stocks	7	4,301	4,582
Debtors	8	9,108	7,356
Cash at banks and in hand	9	3	2
		13,412	11,940
Creditors (amounts falling due within one year)	10	(3,463)	(3,448)
Net Current Assets		9,949	8,492
Provision for Liabilities and Charges	11	(1,175)	(618)
Total Assets less Liabilities		411,524	544,097
Capital and Reserves			
General fund	12	401,435	412,645
Revaluation reserve	13	10,089	131,452
Total Capital and Reserves		411,524	544,097

The notes on pages 115 to 133 form part of these accounts.

R McIntosh

Chief Executive and Accountable Officer

17 November 2003

Cash Flow Statement

Cash Flow Statement

for the year Ended 31 March 2003

	Note	2002-03 £000	2001-02 £000
Reconciliation of Net Deficit to Operating Cash Flows			
Net deficit for the year		(67,927)	(56,518)
Notional cost of capital		28,669	33,497
Depreciation charges		2,195	2,507
Revaluation reserve adjustments	13	14,154	–
(Profit)/loss on sale of properties	4	(691)	(309)
Write-off of properties		1,073	–
(Profit)/loss on sale of other tangible fixed assets		(100)	443
Non-cash inter-country transfers	12	125	(721)
(Increase)/decrease in stocks		281	(459)
(Increase)/decrease in debtors		(1,715)	1,256
Increase/(decrease) in creditors		12	982
Use of provisions		557	409
Net cash outflow from operating activities		(23,367)	(18,913)

Cash Flow Statement

Net cash outflow from operating activities		(23,367)	(18,913)
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Capital

New planting		(359)	(788)
Payments to acquire tangible fixed assets		(5,436)	(3,224)
Receipts from sale of properties	4	2,549	2,321
Receipts from sale of other tangible fixed assets		587	–
Net Capital		(2,659)	(1,691)

Net Cash Outflow after Capital		(26,026)	(20,604)
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Financing

Deficit funded by Forestry Commission		26,027	20,602
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Increase/(decrease) in cash		1	(2)
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Reconciliation of Net Cash Flow to movement in Net Funds

Increase/(decrease) in cash		1	(2)
Net funds at 1 April 2002		2	4
Net funds at 31 March 2003		3	2

The notes on pages 115 to 133 form part of these accounts.

Notes to the Accounts

1. Accounting Policies

(a) Accounting Convention

In accordance with Section 45(1) of The Forestry Act 1967, the accounts are drawn up in a format agreed and approved by the Scottish Ministers. 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 Scottish Executive 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.

Forest Estate

The forest estate has, since 31 March 1993, been valued on an open market value basis (OMV). Regional valuation panels consisting of the Forestry Commission's land agent and two private sector firms have valued it every five years on a forest district basis taking account of the species mix, age, yield class and other relevant factors. The valuation was 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 was further assumed that no restraints exist, as they do in practice, from title, statute and environmental considerations.

For the purpose of the valuation as at 31 March 2003, the panels were re-organised into country panels comprising the Forestry Commission's country land agent and two external valuers under the direction of the Director Estate Management. The panels agreed that the valuation should be done on the basis of existing use value (EUV) as the valuation is carried out for the purposes of company accounts and they are non-specialised assets occupied by the owners of the interest for the purposes of the business. The valuation was carried out on a forest district basis taking account of the species mix, age, yield class and other relevant factors, in accordance with the RICS Appraisal and Valuation Standards (the "Red Book") and a valuation instruction agreed with each panel. A valuation certificate was issued by each panel which confirmed that there was no material difference between the EUV and OMV methods of valuation.

In the absence of an annual forestry based index, the Forestry Commission obtained an external professional opinion of the open market value in the intervening years between 1998 and 2003, which was outside the RICS Red Book Guidelines and made without reference to the valuation panels which undertook the 1998 five-year revaluation. This policy will continue to operate during the period up to the next full revaluation as at 31 March 2008.

Notes to the Accounts (continued)

Non-Forest Land

Non-forest land is assessed at 3-yearly intervals by professionally qualified staff employed by the Forestry Commission following the principles set out in the RICS Red Book. Wherever possible, non-forest land is valued on the basis of its OMV taking account of all relevant circumstances which may affect value. It is restated to current value in the intervening years using an unequipped agricultural land index provided by the District Valuer.

Dwellings and Other Buildings

Dwellings and other buildings are assessed at 3-yearly intervals by professionally qualified staff employed by the Forestry Commission following the principles set out in the RICS Red Book. Wherever possible, dwellings and other buildings are valued on the basis of OMV taking account of all relevant circumstances which may affect value. In those infrequent cases where it is not possible to assess the OMV, they are assessed on the basis of depreciated replacement cost (DRC). They are restated to current value in the intervening years using an index provided by the District Valuer.

The normal threshold for capitalisation of buildings is £2,000.

Forest Holidays Land and Buildings

Forest Holidays land and buildings are restated to current value each year using valuations provided by a specialist leisure business firm.

Plant and Machinery

Forestry vehicles, machinery and equipment (VME) are revalued every three years by professionally qualified staff employed by the Forestry Commission. They are restated to current value in the intervening years using valuations provided by internal professionally qualified staff for specialist forestry machinery and indices provided by the Office for National Statistics for all other assets.

The normal threshold for capitalisation of assets is £3,000.

Fixture and Fittings

Office machinery and equipment (OME) values are restated to current value each year using indices provided by the Office for National Statistics.

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

Revaluation Reserve

The revaluation reserve was restated as at 31 March 1993 when the basis of accounting for the forest estate changed to open market value. On formation of the agency, the balance as at 31 March 1996 was brought forward as the opening revaluation reserve balance but it was not apportioned between the classes of asset. The balance as at 31 March 2001 was apportioned between the asset classes, except for the balance on non-forest land and dwellings and other buildings. A further review of the revaluation reserve balances as at 31 March 2003 has resulted in adjustments to the balances held against each class of asset to comply fully with FRS11 and FRS15 from 1 April 2003. Note 13 provides further details of the adjustments.

With effect from 1 April 2003, the revaluation reserve for each class of asset will be adjusted regularly to take account of each disposal, as well as regular adjustments for price movements, to comply with FRS11 and FRS15. The adjustment to the forest estate revaluation reserve will be calculated on a case by case basis using an appropriate forest district valuation based on species mix, age and yield class.

(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 1 to 60 years
Leasehold buildings	–	lesser of unexpired term of lease and 60 years
Forestry vehicles, machinery and equipment	–	over 3 to 16 years
Office equipment	–	over 4 to 20 years

(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.

Notes to the Accounts (continued)

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 Scotland, is included in the income and expenditure account. The charge is calculated at the Government's standard rate of 6% in real terms on the average carrying amount of all assets less liabilities except for cash balances held by the Office of the Paymaster General. The Government's standard rate changed to 3.5% with effect from 1 April 2003.

(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

Past and present employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS) which is a defined benefit scheme and is unfunded. The Forestry Commission recognises the expected cost of providing pensions on a systematic and rational basis over the period during which it benefits from employees' services by payment to the PCSPS of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the PCSPS.

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 and 5 members of staff who left during 2001-02 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:

	2002-03	2001-02
	£000	£000
Depreciation of fixed assets	2,195	2,507
Hire of plant and equipment	2,427	2,181
Operating lease rentals:		
Land and buildings	204	204
Other	2,056	2,008
Auditors' remuneration – audit work	49	47

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 (FEHO) 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.

Notes to the Accounts (continued)

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.

A number of changes, arising from the Forestry Devolution Review, will take place with effect from 1 April 2003. Each business unit will still run as a discrete GB unit but all expenditure and income will be directly accounted against each country. The FEHO functions have either transferred to the countries or become part of a slimmed down Forestry Commission centre in Edinburgh which continues to provide central services such as personnel, training, information technology, accountancy services and internal audit where it is cost-effective or there are sound policy or practical reasons for doing so. Transitional charging mechanisms will be in place for 2003-04 with new service level agreements in place by 1 April 2004.

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

	Income	Expenditure	2002-03 Net	2001-02 Net
	£000	£000	£000	£000
Forest Holidays	696	448	248	23
Estate Management	2,593	1,807	786	(357)
Other	1,189	1,448	(259)	889
Revaluation reserve adjustments (Note 13)	–	14,154	(14,154)	–
Loss on impairment of Forest Holidays cabins (Note 6)	–	1,073	(1,073)	–
Totals	4,478	18,930	(14,452)	555

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 allocated at the end of the year to England, Scotland and Wales on a site by site basis. Forest Holidays earned a real rate of return on capital invested in their operating activities of 8.5%, compared with a target rate of 8.0%. With effect from 1 April 2003, the business unit will still be managed as a discrete GB unit but all expenditure and income will be directly accounted against each country.

Estate Management reflects the net cost of managing the non-forested estate which comprises houses, farms, agricultural land and all other lettings. It includes surplus assets which are disposed of wherever possible. With effect from 1 April 2002, the net cost or income of offices and other buildings has been charged to other operational activities and administrative expenses, as appropriate, instead of to the Estate Management activity.

The revaluation reserve adjustments are described in Notes 1B and 13 to the Accounts.

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

3. Staff Numbers and Costs

(a) Employees and costs

The average number of whole time equivalent persons employed in Forest Enterprise in Scotland during the year was 745 (761 in 2001-02). A further 457 staff (443 in 2001-02) were employed on a Great Britain basis to provide support to Forest Enterprise activities in all three countries.

The aggregate payroll costs were as follows:

	2002-03	2001-02
	£000	£000
Salaries	20,118	19,775
Social Security Costs	1,286	1,336
Employers Superannuation Costs	2,338	2,634
	23,742	23,745

Staff were covered by the Principal Civil Service Pension Scheme (PCSPS). The PCSPS is an unfunded multi-employer defined benefit schemes 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 2002-03, employers' contributions of £2,338,000 were payable to the PCSPS (£828,000 in 2001-02) at one of the four rates in the range 12 to 18.5% of pensionable pay, based on salary bands. Rates will remain the same for the next year, 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.

Notes to the Accounts (continued)

Employees joining after 1 October 2002 could opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employers' contributions of £nil were paid to one or more of a panel of four appointed stakeholder pension providers. Employer contributions are age-related and range from 3 to 12.5% of pensionable pay. Employers also match employee contributions up to 3% of pensionable pay. In addition, employer contributions of £nil, 0.8% of pensionable pay, were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees.

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

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 travel season tickets
- (iii) car provision scheme

The advances of salary for house purchase scheme had 13 loans with an outstanding balance of £2,500 or more to individual members of staff at 31 March 2003. The total value of these loans was £84,000.

(b) Management Board

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

		Age Years	Salary £000	Real increase in pension at age 60 £000	Total accrued pension at age 60 at 31 March 2003 £000	Benefits in kind £	Employer contribution to partnership pension account including risk benefit cover (note (d)) £
2002-03							
Bob McIntosh	a	51	80-85	2.5-5.0	25-30	–	–
Bob Farmer	a	55	55-60	0.0-2.5	20-25	–	–
Geoff Hatfield	a	51	70-75	2.5-5.0	20-25	£1,900	–
Hugh Insley	a	54	60-65	2.5-5.0	20-25	–	–
Mike Lofthouse	a	58	60-65	0.0-2.5	25-30	–	–
Ian Forshaw	a	47	50-55	0.0-2.5	15-20	£500	–
Keith Gliddon	a	51	50-55	0.0-2.5	15-20	–	–
Craig Heaney	a	54	55-60	0.0-2.5	25-30	£1,400	–
Peter Ranken	a	52	60-65	0.0-2.5	25-30	–	–
Alan Stevenson	a	45	50-55	0.0-2.5	10-15	£400	–
Peter Weston	a	44	45-50	0.0-2.5	10-15	£800	–
2001-02							
Bob McIntosh		50	75-80	0.0-2.5	25-30	–	–
Bob Farmer		54	50-55	0.0-2.5	15-20	–	–
Geoff Hatfield		50	65-70	0.0-2.5	20-25	–	–
Hugh Insley		53	50-55	0.0-2.5	20-25	–	–
Mike Lofthouse		57	50-55	0.0-2.5	20-25	£2,000	–
Ian Forshaw		46	40-45	0.0-2.5	10-15	£1,200	–
Keith Gliddon		50	45-50	0.0-2.5	15-20	–	–
Wilma Harper		46	45-50	0.0-2.5	10-15	–	–
Craig Heaney		53	50-55	0.0-2.5	20-25	£2,500	–
Iain Miller		56	45-50	0.0-2.5	20-25	£645	–
Peter Ranken		51	55-60	0.0-2.5	20-25	£200	–
Alan Stevenson		44	50-55	0.0-2.5	10-15	£600	–
Peter Weston		43	40-45	0.0-2.5	5-10	£1,500	–

a opted to join classic scheme

b opted to join premium scheme

c opted to join classic plus scheme

d opted to join partnership pension account

Notes to the Accounts (continued)

Notes:

Salary

- (i) 'Salary' includes gross salary and performance bonuses.

Pension

- (ii) Pension benefits for the management board are consistent with other Forestry Commission employees and are provided through the Principal Civil Service Pension Scheme (PCSPS). From 1 October 2002, civil servants may be in one of three statutory based "final salary" defined benefit schemes (classic, premium, and classic plus). New entrants after 1 October 2002 may choose between membership of premium or joining a good quality "money purchase" stakeholder based arrangement with a significant employer contribution (partnership pension account).

(a) Classic Scheme

Benefits accrue at the rate of 1/80th of pensionable salary for each year of service. In addition, a lump sum equivalent to three years' pension is payable on retirement. Members pay contributions of 1.5% of pensionable earnings. 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.

(b) Premium Scheme

Benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum, but members may commute some of their pension to provide a lump sum up to a maximum of 3/80ths of final pensionable earnings for each year of service or 2.25 times pension if greater (the commutation rate is £12 of lump sum for each £1 of pension given up). For the purposes of pension disclosure the tables assume maximum commutation. Members pay contributions of 3.5% of pensionable earnings. On death, pensions are payable to the surviving spouse or eligible partner at a rate of 3/8ths the member's pension (before any commutation). On death in service, the scheme pays a lump-sum benefit of three times pensionable earnings 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. Where the member's ill health is such that it permanently prevents them undertaking any gainful employment, service is enhanced to what they would have accrued at age 60.

(c) Classic Plus Scheme

This is essentially a variation of premium, but with benefits in respect of service before 1 October 2002 calculated broadly as per classic.

Pensions payable under classic, premium, and classic plus are increased in line with the Retail Prices Index.

(d) Partnership Pension Account

This is a stakeholder-type arrangement where the employer pays a basic contribution of between 3% and 12.5% (depending on the age of the member) into a stakeholder pension product. The employee does not have to contribute but where they do make contributions, these will be matched by the employer up to a limit of 3% (in addition to the employer's basic contribution). Employers also contribute a further 0.8% of pensionable salary to cover the cost of risk benefit cover (death in service and ill health retirement). The member may retire at any time between the ages of 50 and 75 and use the accumulated fund to purchase a pension. The member may choose to take up 25% of the fund as a lump sum.

Benefits in kind

- (iii) The monetary value of benefits in kind covers any benefits provided by the employer and treated by the Inland Revenue as taxable income.

Loans to members of the Management Board

Loans are made to members of the Management Board in the form of an advance of salary for house purchase. The loans are made on the same terms as are available to other staff. The amount outstanding at 31 March 2003 amounted to £83,000 (£31,000 at 31 March 2002). Permission to disclose details had not been requested.

4. Sale of Properties

	2002-03	2001-02
	£000	£000
Income	2,549	2,321
Book value	1,858	2,012
	691	309
Disposal costs		
External costs	279	275
Administration expenses	298	264
	577	539
Surplus/(deficit) on sale of properties	114	(230)

Notes to the Accounts (continued)

5. Notional Cost of Capital

Notional cost of capital based on 6% of average total assets less liabilities employed in 2002-03 amounted to £28,669,000.

6. Tangible Fixed Assets

	Forest Estate £000	Land £000	Forest Holidays Land £000	Dwellings and Other Buildings £000	Forest Holidays Buildings £000	VME £000	OME £000	Total £000
Valuation:								
At 1 April 2002	492,751	18,953	1,230	15,191	1,107	23,382	2,951	555,565
Additions	542	427	–	530	3,071	1,114	114	5,798
Transfers	–	–	–	–	–	(134)	89	(45)
Disposals	(1,058)	(48)	–	(674)	(111)	(5,203)	(88)	(7,182)
Revaluation	(134,789)	73	–	1,017	47	302	(45)	(133,395)
Loss on impairment	–	–	–	–	(1,073)	–	–	(1,073)
At 31 March 2003	357,446	19,405	1,230	16,064	3,041	19,461	3,021	419,668
Depreciation:								
At 1 April 2002	–	–	–	–	56	17,034	2,365	19,455
Provided during year	–	–	–	497	50	1,462	186	2,195
Transfers	–	–	–	–	–	(134)	50	(84)
Disposals	–	–	–	(13)	(20)	(4,716)	(88)	(4,837)
Revaluation	–	–	–	–	–	281	(16)	265
At 31 March 2003	–	–	–	484	86	13,927	2,497	16,994
At 31 March 2003	357,446	19,405	1,230	15,580	2,955	5,534	524	402,674
At 1 April 2002	492,751	18,953	1,230	15,191	1,051	6,348	586	536,110

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

The forest estate was subject to a full professional revaluation, on the basis of existing use value, as at 31 March 2003 by a country valuation panel comprising John Clegg and Co. Chartered Surveyors, Bidwells Chartered Surveyors and professionally qualified land agents employed by the Forestry Commission. The valuation has been adjusted by 2.5% for estimated directly attributable selling costs. The next full revaluation is due as at 31 March 2008 with annual updates in the intervening years based on an external professional opinion.

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. The next full revaluation is due as at 31 March 2005 with annual updates in the intervening years based on indices provided by the District Valuer.

Forest Holidays land and buildings were revalued by Barrs and Co. Chartered Surveyors of Leeds as at 31 March 2003. The Strathyre forest cabins were demolished in year as part of a modernisation programme and the loss on disposal of £91,000 recognised through the income and expenditure account. £3,071,000 had been spent on site modernisation as at the balance sheet date but the asset under construction was subsequently valued based upon predicted levels of financial trading and the balance sheet adjusted for the impairment to date of £1,073,000.

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. The next full revaluation is due as at 31 March 2005 with annual updates in the intervening years based on valuations provided by internal professionally qualified staff for specialist forestry machinery and indices provided by the Office for National Statistics for all other assets.

Office machinery and equipment (OME) was revalued as at 31 March 2003 using an index provided by the Office for National Statistics.

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

Additions to tangible fixed assets includes an amount of £3,000 remaining unpaid at 31 March 2003. 'Payments to acquire tangible fixed assets ' in the cash flow statement has been adjusted accordingly to derive the cash spend on capital additions.

7. Stocks

	2002-03	2001-02
	£000	£000
Timber	2,057	2,006
Plants and seed	1,510	1,686
Consumable materials, supplies and livestock	734	890
	<u>4,301</u>	<u>4,582</u>

Notes to the Accounts (continued)

8. Debtors

	2002-03	2001-02
	£000	£000
Amounts falling due within one year:		
Trade debtors	7,696	6,002
Other debtors	179	204
Prepayments	1,233	1,150
	9,108	7,356
Amounts falling due after more than one year:		
Other debtors	76	113
	9,184	7,469

9. Cash at Banks and In Hand

	2002-03	2001-02
	£000	£000
Cash in hand	3	2
	3	2

10. Creditors: amounts falling due within one year

	2002-03	2001-02
	£000	£000
Amounts falling due within one year:		
Trade creditors	3,098	2,474
Other creditors	275	517
Payments received on account	90	457
	3,463	3,448

11. Provision for Liabilities and Charges

	Early departure costs £000	Public legal claims £000	Other legal claims £000	Total £000
Balance at 1 April 2002	618	–	–	618
Provided in the year	120	18	516	654
Provisions not required written back	–	–	–	–
Provisions utilised in the year	(159)	–	–	(159)
Unwinding of discount	62	–	–	62
Balance at 31 March 2003	641	18	516	1,175

Provisions for liabilities and charges include provisions for:

- 🔗 Early departure costs. 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 by establishing a provision for the estimated payments discounted by the Treasury discount rate of 6% in real terms. Subsequent annual payments to individuals are set against the provision.
- 🔗 Legal claims from the public for personal injury or damage caused to property.
- 🔗 Compensation for injury to employee's.

12. General Fund

	2002-03	2001-02
	£000	£000
Balance brought forward	412,645	415,808
Movement in year:		
Net deficit for the year	(67,927)	(56,518)
Notional cost of capital	28,669	33,497
Cash deficit funded by Forestry Commission	26,027	20,602
Transfers of fixed assets from/to other Forestry Bodies	39	(23)
Realised revaluation surplus	1,857	–
Non-cash inter-country transfers	125	(721)
	(11,210)	(3,163)
Balance carried forward	401,435	412,645

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 2002-03 is £125,000.

Notes to the Accounts (continued)

13. Revaluation Reserve

	2002-03	2001-02
	£000	£000
Cumulative revaluation reserve brought forward	131,452	156,668
Revaluation deficit for the year ended 31 March 2003:		
Forest Estate	(134,789)	(33,473)
Land	73	5,984
Forest Holidays land	–	(115)
Forest Holidays buildings	47	11
Dwellings and other buildings	1,017	2,623
VME	21	(246)
OME	(29)	–
	(133,660)	(25,216)
Realised revaluation surplus	(1,857)	–
Revaluation reserve adjustments to income and expenditure account	14,154	–
Balance carried forward	10,089	131,452

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

	2002-03	2001-02
	£000	£000
Forest Holidays buildings	(408)	–
VME	(1,316)	–
OME	(133)	–
	(1,857)	–

The following adjustments were made to the revaluation reserve and written to the income and expenditure account as described in Note 1B to the Accounts:

	2002-03	2001-02
	£000	£000
Forest Estate	3,664	–
Other land and buildings	10,490	–
	14,154	–

14. Capital commitments

Amounts contracted for but not provided in the accounts amounted to £814,000 and is part of the modernisation programme on the Forest Holiday's cabins at Strathyre, Perthshire.

15. Commitments under leases

Operating Leases

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

	2002-03 £000	2001-02 £000
Land and building leases expiring within:		
One year	16	8
Two to five years	7	24
More than five years	149	139
	<u>172</u>	<u>171</u>

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

	2002-03 £000	2001-02 £000
Land and building leases expiring within:		
One year	–	–
Two to five years	–	10
More than five years	58	49
	<u>58</u>	<u>59</u>

	2002-03 £000	2001-02 £000
Other leases expiring within:		
One year	412	–
Two to five years	2,955	3,291
More than five years	19	80
	<u>3,386</u>	<u>3,371</u>

Notes to the Accounts (continued)

16. Other financial commitments

There were no other financial commitments as at 31 March 2003.

17. Contingent Liabilities

There were no contingent liabilities at 31 March 2003 (£nil at 31 March 2002).

18. 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.

In the year to 31 March 2003, Forest Enterprise entered into the following material transactions involving the non-executive Commissioners of the Forestry Commission:

Mr Tom Bruce Jones is a director of James Jones and Sons Ltd which purchased approximately 335,770 cubic metres of timber and plants and seed at £5,978,000 from Forest Enterprise. The balance due from Mr Jones at 31 March 2003 was £nil.

19. Losses statement

Losses totalled £43,000 from 31 cases (£133,000 from 54 cases in 2001-02).

Special payments totalled £173,000 from 44 cases (£269,000 from 50 cases in 2001-02).

20. Financial Instruments

FRS13, Derivatives and Other Financial Instruments, requires disclosure of the role which financial instruments have had during the period in creating or changing the risks an entity faces in undertaking its activities. Because of the nature of its activities and the way in which the agency is financed, Forest Enterprise in Scotland is not exposed to the degree of financial risk faced by business entities. Moreover, financial instruments play a much more limited role in creating or changing risk than would be typical of the listed companies to which FRS13 mainly applies. The agency has no powers to borrow or invest surplus funds and financial assets and liabilities are generated by day-to-day operational activities and are held not to change the risks facing the department in undertaking its activities.

Liquidity risk

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

Interest-rate risk

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

Foreign currency risk

Forest Enterprise in Scotland is not exposed to foreign currency risk.

Fair Values

There is no difference between book value and fair value for the cash at bank shown in Note 9. Fair value for the provisions shown in Note 11 is not significantly different from book value since, in the calculation of book value, the expected cash flows have been discounted by the Treasury rate of 6% in real terms.

21. Financial Performance Measures

The financial performance measures set by the Forestry Commissioners for 2002-03 and the actual outturns achieved were:

	Achieved	Target
	£000	£000
Operating deficit	32,252	17,700
Cash deficit	26,027	23,600
Gross receipts from sale of properties	2,549	2,900

The actual operating deficit includes revaluation reserve adjustments and loss on impairment of assets amounting to £14,154,000 and £1,073,000 respectively which were not included in the target for 2002-03. Without these adjustments, the operating deficit would have been £17,025,000.

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

Appendix 1

Direction by the Scottish Ministers

in accordance with section 45(1) of the Forestry Act 1967

1. The Forestry Commission shall prepare accounts for Forest Enterprise of its activities in Scotland for the financial year ended 31 March 2002 and subsequent financial 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 Accountable Officer's responsibilities; and
 - (g) a statement on the system of 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 of 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 guidance which the Scottish Ministers may issue from time to time in respect of accounts which are required to give a true and fair view; insofar as these are appropriate to Forest Enterprise 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 issued on 28 November 2000.

Signed by the authority of the Scottish Ministers.

P S Collings 19 July 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.
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 Accountable Officer and dated.

Accounting standards

7. Forest Enterprise is not required to include a note showing historical cost profits and losses as described in FRS3.
8. The cash flow statement shall be presented under the indirect method as described in FRS1.
9. Forest Enterprise shall not adopt the Financial Reporting Standard for Smaller Entities.

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 Scottish Ministers in accordance with Section 45(1) of The Forestry Act 1967;
 - (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" costs analysed 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
 - 🌲 expendituregiving 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 Scottish Ministers

Notes to the Accounts

4. The notes to the accounts shall show, 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 in accordance with guidance issued by the Scottish Ministers.

Addresses of the main offices of the Forestry Commission

Scottish Offices

National Office for Scotland

Silvan House, 231 Corstorphine Road, Edinburgh, EH12 7AT
Telephone: 0131 314 6156 Fax: 0131 314 6152

Forest Enterprise Scotland

1 Highlander Way, Inverness Retail and Business Park, East Field Way, Inverness, IV2 7GD
Telephone: 01463 232811 Fax: 01463 243846

55-57 Moffat Road, Dumfries, DG1 1NP
Telephone: 01387 272440 Fax: 01387 251491

Other Offices

Silvan House, 231 Corstorphine Road, Edinburgh, EH12 7AT
Telephone: 0131 334 0303 Fax 0131 334 3047
E-mail: enquiries@forestry.gsi.gov.uk Website: www.forestry.gov.uk

National Office for England

Great Eastern House, Tenison Road, Cambridge, CB1 2DU
Telephone: 01223 314546 Fax: 01223 460699

National Office for Wales

Victoria Terrace, Aberystwyth, Ceredigion, SY23 2DQ
Telephone: 01970 625866 Fax: 01970 626177

Forest Enterprise Territorial Office for England

340 Bristol Business Park, Coldharbour Lane, Bristol, BS31 2BF
Telephone: 0117 906 6000 Fax: 0117 931 2859

Forest Enterprise Territorial Office for Wales

Victoria Terrace, Aberystwyth, Ceredigion, SY23 2DQ
Telephone: 01970 612367 Fax: 01970 625282

Forest Research

Alice Holt Lodge, Wrecclesham, Farnham, Surrey, GU10 4LH
Telephone: 01420 22255 Fax: 01420 23653

Northern Research Station, Roslin, Midlothian, EH25 9SY
Telephone: 0131 445 2176 Fax: 0131 445 5142

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Forestry Commission

Silvan House

231 Corstorphine Road

Edinburgh, EH12 7AT

Tel: 0131 334 0303

Fax: 0131 334 3047

www.forestry.gov.uk

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