

# Forestry Commission Wales

Annual Report  
and Accounts for Wales 2002-2003



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A copy of the Wales Annual Report 2002-03 is available on the Forestry Commission website  
**[www.forestry.gov.uk](http://www.forestry.gov.uk)**

This report is also available in Welsh

# Contents

Annual Report and Accounts 2002-2003 for Wales.  
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Foreword by the Chairman	1
Introduction by Chief Conservator	2
Delivering Welsh Assembly Government Policies	3 - 4
Promoting Sustainable Forest Management	5
Programmes and Actions arising from the Wales Woodland Strategy	6
Woodlands for people	6 - 10
A new emphasis on woodland management	10 - 12
Wales as a location for world-class forest industries	13 - 14
A diverse and healthy environment	15 - 17
Tourism, recreation and health	17 - 18
Efficient use of resources	19 - 22
Financial Highlights	23
Resource Accounts	24 - 60
Forest Enterprise Accounts	61 - 93
Appendices	94 - 98
Tables	99 - 102
Maps	103 - 105
Addresses	106

## Foreword by Chairman

The year has again been dominated by changes to the governance structures within the Forestry Commission needed to fully implement the required administrative changes following devolution. Ministers agreed the recommendations of the Forestry Devolution Review in August 2002, and they also expressed their support for the delivery of forestry policy through the Forestry Commission. They wished to see greater integration of forestry with other rural policy work in each country whilst retaining opportunities for a collaborative approach on common issues.

In Wales this has led to the agreement of a Concordat between Forestry Commission Wales and the National Assembly's Department of Agriculture and Rural Affairs. This describes in detail how the two Departments will co-operate to ensure the delivery of the Assembly's rural affairs policies and also provides more detail of where partnership working can be improved through close co-operation. This kind of partnership between public organisations is the only way forward if we are to deliver the kind of joined-up working that the public now expects, and the Forestry Commission has been at the forefront in working with others in this way.

The appointment of an executive and two non-executive Commissioners to represent Wales on the Board and the formation of the National Committee for Wales have reinforced the Forestry Commission's commitment to working more closely with the National Assembly. Indeed, the Director of the National Assembly's Agriculture and Rural Affairs Department is also a member of the National Committee for Wales.

Forest Enterprise as a GB Agency will cease to exist at the end of the year and a new Wales Forest Management Agency will be established from 1 April 2003 whilst consideration is given to its long term status. This should be concluded in late 2003.

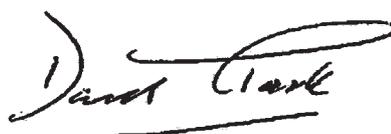
All of these changes have meant an increased focus on issues of importance in Wales, and the responsibility for implementing forestry policy being delegated to people who are closely

connected to Wales and the National Assembly. Although consideration of these changes has taken up a great deal of time by a range of staff in Forestry Commission Wales, I have been impressed by the way that this has not deflected them from focusing on the delivery of our objectives.

The important policy initiatives brought about following devolution are now becoming clearer and are focusing on the need to change the appearance of the forests and woodlands to reflect society's wish for a different kind of woodland in Wales. The desire for diverse, environmentally attractive places for recreation and peaceful enjoyment continues to be strong, as is the wish to safeguard habitats for wildlife, whilst providing much needed jobs in rural areas through a continued commitment to the production of high quality timber.

The development of a Wood Energy Business Scheme and the launch of the Cydcoed 2 - Woods for All programme, are two excellent examples of major initiatives that will bring huge benefits to people across Wales. I hope that, as a result, the Forestry Commission can continue to be viewed as a responsible custodian of a major part of the natural woodland resource in Wales.

There have been significant changes to forestry policy since devolution and, at a time when the forestry industry is experiencing the worst timber market conditions in living memory, these new policies have been delivered against an extremely difficult economic background. As we have shown many times in our history, the Forestry Commission is able to meet these challenges with creative thinking and a professional approach to continue its work on behalf of the people of Wales.



**Lord Clark of Windermere**

## Introduction by Chief Conservator

This year has again seen a broadening of our work as we set about tackling the objectives set out in the Welsh Assembly's Strategy for woodlands and trees, Woodlands for Wales. Despite the continued decline in the home-grown timber market, we have made significant progress on many of the main themes of the Strategy, targeted at using and managing our woodlands in a sustainable way.

We have had to continually assess our resources to ensure that we meet the main aims of the Woodland Strategy and deliver the most important objectives. We also recognise the challenges faced by the whole forestry industry in Wales and, through the continuing enthusiasm, commitment and professionalism of our staff, we have made good progress in addressing many of the issues facing all sectors of the industry, details of which can be found in this report.

The Woodland Forum that oversees implementation of the Strategy, met twice during the year and, through its six Working Groups, continued the development of programmes to meet its objectives. A particular issue was the need to increase the rate of conversion of the Assembly's woodlands to a more diverse mixture of tree species, and reduce the impact of clear felling.

Progress was made in identifying areas of woodland suitable for conversion to continuous cover using Low Impact Silvicultural Systems of management, and training was provided to a range of FC staff. Further development of this important policy continued, including alternative methods of establishing broadleaves through natural re-generation and seeding. We expect these programmes to significantly increase the species diversity of the Assembly's woodlands over the coming years, whilst improving wood quality for productive end uses.

In the key area of social inclusion and community development there were several major events during the year. Our Chairman, Lord Clark, launched our Recreation Strategy at the 2002 Royal Welsh Show and we also hosted a very successful Woodlands for Learning conference attended by over 160 participants. Both the Forest Education Initiative and the Forest Enterprise Education Service were expanded as a result of increased funding from the National Assembly, and were re-launched by the Minister for Education and Life-Long Learning, Jane Davidson AM. We placed a member of staff on secondment with the National Assembly's Communities First team and, in partnership with the

Local Authority, we purchased 220 hectares of woodland close to Caerphilly as a community woodland providing enhanced public access for the people of the area.

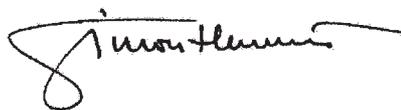
A successful partnership with the Wales Council for Voluntary Action provided work placements and training in rural North Wales, and has led to the development of a much larger programme, Community Futures, which is currently awaiting funding.

In the area of woodland management, the most comprehensive survey of the woodlands of Wales was completed with the publication of the National Inventory of Woodland and Trees in Wales. This showed that woodland cover had increased by over 45,000 hectares since the last survey in 1980, and the area had doubled since 1947. It also showed that the area of broadleaved trees had increased by 80% between 1980 and 1997 with the relative proportion of broadleaves to conifers increasing from 29% to 44%. This means that the woodlands of Wales now extend to a greater area than at any time since the days of Owain Glyndwr.

The report of the Woodland Development and Biomass Strategy Group was given unanimous support by the Assembly following a full plenary debate. Applications for funding for this major wood energy project have now been submitted. If approved, the project will make a major contribution to the Assembly's targets on the use of sustainable resources for energy generation, as well as providing a much-needed new market for home grown timber.

Throughout the year we have successfully partnered many different organisations on projects as diverse as enhancing the quality of fishing in Welsh rivers, to improving the breeding populations of seven rare bird species.

Finally, work continued on the major reshaping of the way that our Woodland Grant Scheme is structured in an effort to further the objective of sustainable forest management in Wales. This work will help to create woodlands that provide social, environmental and economic benefits, and promote home grown timber as a renewable resource.



**Simon Hewitt**

# Delivering Welsh Assembly Government Policies

The Forestry Commission is answerable to the Welsh Assembly Government for its activities in Wales. The Welsh Assembly Government's key themes and targets are set out in its Strategic Plan, [betterwales.com](http://betterwales.com), and this document underpins 'Woodlands for Wales', the Welsh Assembly Government's Strategy for Trees and Woodlands. The Strategy describes the contribution that forestry can make to the Welsh Assembly Government's sustainable development and communities agendas and forms the basis for our activities.

In conjunction with ARAD (the Agriculture and Rural Affairs Department of the Welsh Assembly Government), the Forestry Commission manages the forestry measures within the Plan. Implementation is through the Woodland Grant Scheme and direct action on the Welsh Assembly Government's own woodland estate, managed by our agency, Forest Enterprise.

Forestry is contributing in the following ways to the key priority areas in [betterwales.com](http://betterwales.com), on which we comment in more detail later in this:

- Better opportunities for learning
- A better and stronger economy
- Better health and well being
- Better quality of life
- Better, simpler government

## Partnership projects with Welsh Assembly Government Departments

Woodland Development and Biomass Strategy Group Forestry Commission staff made two presentations on the Farm Woodland Development and Biomass report, one to the National Assembly's Economic Development Committee and one to the Agriculture and Rural Development Committee. The report was considered in full plenary session in the Assembly on 2 July 2003. In all three cases the report was given unanimous support, although recognising that progress can only be made in partnership. Following the Plenary debate, FC completed and disseminated the results of a Resource Study into Fuelwood availability from Welsh Assembly Government woodland. Expressions of interest have been invited and applicants are being assessed with a view to offering Letters of Intent in summer 2003.

## Farming Connect

This Welsh Assembly Government initiative aims to deliver "joined-up" Government services to farmers throughout Wales. It is a partnership of key public sector organisations involved in providing advice and grant aid to farmers. Its purpose is to provide farmers with the best possible co-ordinated advice on new technologies, production techniques and environmental management through direct advice, training and grant aid.

As part of this initiative, the Forestry Commission has funded a co-ordinator post based at the Welsh Development Agency office in Aberystwyth. During the year the FC/WDA member of staff worked with the Farming Connect facilitators to develop a greater understanding of the range of grant aid and assistance for farmers that FC Wales can offer. The WDA has produced an information pack setting out the joint FC/WDA support mechanisms for the timber sector.

### **European Funding Objective 1, 2, and 3 Delivering to the Forestry Sector in Wales**

In Wales, the delivery of Objective 1 targets under the Single Programming Document (SPD) is being progressed through regional and local partnerships. The Forestry Commission is the lead body for the Forestry Countryside and Coastal Management Strategic Plan (FCCMSP) and has a key role, with other partner members, to ensure the targets identified in the SPD are achieved.

We are now 3 years into the current round of EU structural funding for Wales. Forestry has benefited from a range of projects totalling in excess of £27m across the breadth of the sector and with further projects worth over £28.5m in the pipeline the sector should enjoy significant further support during the remainder of the programme.

Projects will deliver across all the 5 objectives of the Wales Woodland Strategy.

Further information on specific programmes is provided under the appropriate Woodland Strategy for Wales subheading.

#### **Rural Recovery Plan**

In the wake of the foot and mouth disease outbreak in Wales, the Welsh Assembly Government launched the Rural Recovery Plan in July 2001. Key measures in the plan included £4.2 million of funding for the marketing and development of tourism businesses and £5 million to support integrated tourism, leisure and environmental projects.

Actions under the Rural Recovery Plan were implemented that:

- continuing the enhanced 75% the rate of grant aid for woodland management under WIG;
- maintaining support for Forest Festivals on National Assembly land in rural locations;
- continuing the development of proposals for specific tourist attractions and sporting facilities such as mountain bike trails in the Assembly's woodlands;
- schemes launched in Objective 1 areas (e.g. the Farm Shelterwood Scheme) were extended to the whole of Wales and particularly those areas worst affected by foot and mouth disease.

#### **Adfywio**

Adfywio is a £5.2 million new match-funding scheme that was developed as part of the rural recovery funding grant package announced by the National Assembly for Wales last year. The Countryside Council for Wales and the Wales Tourist Board jointly manage the scheme with support from FC.

These organisations have used their individual areas of expertise to ensure that the £5.2 million was being used as effectively as possible, securing the future of many businesses, whilst also improving the enjoyment of the Welsh countryside.

FC Wales committed £200,000 to the scheme to help support projects related to woodlands.

# Promoting Sustainable Forest Management

The Welsh Assembly Government is committed to sustainable development. The woodlands of Wales have a key part to play in achieving the goals of sustainable social, economic and environmental development.

The Programmes for Action in 'Woodlands for Wales' is an integral part of the overall sustainable development plan for Wales and key activities during the year included:

## Review of Grant Schemes

The review of support for the management of existing woodlands was completed during the year and a new grants package is currently being designed for launch in 2005. The aim of the review was to consider whether the current system of grant support mechanisms provided by the Forestry Commission in Wales was sufficient in delivering sustainable forest management. The first phase of the review to evaluate existing support for the planting and establishment of new woodlands was also completed during this period.

Our 'Invest to Save' bid was approved by the Treasury enabling us to press ahead with the next phase of our development of Grants and Licences using electronic applications via Business to Business relationships with external partners.

## United Kingdom Woodland Assurance Scheme (UKWAS)

In order to develop support for the UK Woodland Assurance Scheme (UKWAS) a member of staff was seconded to the Forestry Stewardship Council (FSC) to oversee certification pilots being run in Wales. UKWAS is a private sector initiative, facilitated by the Forestry Commission, which provides assurance to buyers and retailers that certified wood products with the UKWAS certification label come from forests managed in an environmentally sensitive way.

UKWAS certification was maintained for all Assembly woodlands following a testing audit.

## Woods for Wales Award

The Forestry Commission's Woods for Wales Award is sponsored by the Scottish Power RuralCare Grant Scheme

programme. This award is made annually for excellence in the management of woodlands or the innovative use of wood as a raw material. Staff and pupils of Croesyceiliog Comprehensive School near Cwmbran were this year's winners. They received the award in recognition of their work in transforming an adjacent wood into a valuable educational resource.

## Felling Controls

The regulation of tree felling within Wales is to ensure that any felling complies with the principles of sustainable forest management. In most cases owners, after felling, are obliged to replant with appropriate species to replace those felled. The majority of felling permissions and conditions relating to replanting arise as part of a Woodland Grant Scheme. However, we still operate a system of Felling Licences that are used when grant aid is not involved. 134 felling Licences were issued during the year. We received 44 reports of alleged illegal felling. Three cases were brought to court and convictions were secured in all three cases.

## Plant Health

To protect trees and woodlands from pests and diseases, our Plant Health Inspectors monitored imports of controlled wood products, including wooden packaging material, landed at Welsh ports. No instances of non-compliance were recorded. Pheromone traps baited for *Ips typographus* (the eight-toothed spruce bark beetle) were again mounted and regularly checked at ports and larger wood processing plants in Wales. Permanent survey plots were also monitored, as part of our European Union Protected Zone Survey Programme to check for signs of pests. No pests were trapped, either in pheromone traps or at survey plots. At the end of the year a public consultation was launched seeking comments on options for managing *Dendroctonus micans* (the Great Spruce Bark Beetle). This followed the detection of a new outbreak of the pest in the Lakes District in April 2002. Statutory controls against *D. micans* have been in place in Wales since the beetle was first found in 1982.

# Programmes and Actions arising from the Woodland Strategy for Wales

The Wales Woodland Strategy which was launched formally in July 2001 sets out in detail the principal objectives, indicative performance measures and milestone markers. The programmes of action are collected into five broad objective areas:

- Woodlands for People
- A new emphasis on woodland management
- Wales as a location for world-class forest industries
- A diverse and healthy environment
- Tourism, recreation and health

## Woodland Forum for Wales

The Woodland Forum has responsibility for monitoring progress in implementing the core themes and actions from the Strategy and reports back from time to time to the Assembly's Agriculture and Rural Development Committee.

During the year the Minister for Rural Affairs chaired two meetings of the Woodland Forum. Membership of the Forum includes partner organisations mandated to assist in the delivery of programmes emerging from the Woodland Strategy and includes representatives from the public, private and voluntary sectors. A full list of members of the Forum can be found in Appendix 3 on Page 97.

At the meeting held on 27th March, the Minister expressed his desire to see faster implementation of objectives arising from 'Woodlands for Wales' and stressed the importance of making progress in all of the Forum Working Groups. The main topics discussed were papers on restocking and continuous cover

forestry management (CCF) on the Assembly estate.

The Minister wanted to make faster progress on increasing the diversity of species on the Assembly estate through increasing the use of broadleaves in restocking and to increase the pace of change towards continuous cover forestry (CCF). The Forum was broadly behind the conclusion of its Working Group 2, which presented a paper giving a recommendation that 'any presumption in favour of species in restocking would be unhelpful and that each site should be considered independently as part of the forest design process.'

Further work on the clarification and future implementation of this important aim will take place over the coming year.

## 1. Woodlands for People

Woodlands can provide environmental and social benefits to local communities, support opportunities for learning and contribute to local sustainability. Trees can also provide an important link between local people and their landscape and heritage. Our key objectives of providing woodlands for people are:

- To use woodlands as a social and cultural asset for some of our most disadvantaged communities;
- To maximise the use of woodlands for learning; and
- To provide opportunities for communities to have their say in the management of woods close to where they live.

These objectives have been addressed during the year through the following initiatives:

## **Cydcoed**

Cydcoed - 'Woods for All' is a grant programme that provides support and 100% funding to community groups throughout Objective 1 Wales to help them make better use of woodland for community development. Cydcoed Phase I is a £4M programme running to end 2003. It has been highly successful and funding for a £12M Cydcoed Phase II running to end 2008 was confirmed in January 2003 and launched in March 2003.

Cydcoed Phase I has committed nearly all of its £4M worth of grants and includes 40 projects. Over £2M in grants have been given to community groups and all projects are on track for completion by the end of the programme.

Cydcoed was the only Objective 1 [EAGGF] programme predicting the delivery of permanent jobs. In addition, the individual projects were spread across the whole of the Objective 1 region.

Forest Enterprise Wales supported and facilitated Cydcoed projects in Afan Forest Park, the Ystwyth Valley, Talley, Capel Curig and Brechfa.

## **Education**

The Forest Education Initiative (FEI) aims to increase young people's understanding of the local and global importance of trees, woodlands and forest environments, the forestry industry, the timber trade and wood products industries. It operates as a partnership between the forestry and timber processing sectors, environmentalists and educationalists. FEI supports a number of cluster groups throughout Wales, which work in specific geographical areas.

In 2002/03, financial support enabled the FEI partnership to expand and it now employs two FEI Co-ordinators as well as two FEI Information and Support Officers. There are now 17 cluster groups operating throughout Wales, a further 8 having been established during 2002/03. New Start-up grants were designed, of which 13 grants were taken up by the cluster groups. 9 FEI Partnership grants were also awarded totalling £33,382.

A 'Woodlands for Learning' conference held in December 2002 was attended by over 160 people and was a great success.

A Wales Learning Forum has been established and meets 3-4 times each year. The Forum advises and assists on issues such as influencing policy development, training best practice and monitoring.

Individual Forest School projects continued to grow around Wales mainly within the FEI Cluster groups. Duffryn Early Years and the Flintshire Transition Project have been dedicated as pilot research areas to assess the personal and social development of the children involved, as well as the capacity built within the local community. This research is currently being carried out by the New Economics Foundation.

In October, the Minister for Education and Lifelong Learning launched Forest Enterprise Wales' expanded education service. During the year over 1200 schools were contacted, including all those located in Community First areas. FEW worked with some 400 schools and 22,000 children. Over 95% of customers rated the service as good or very good.

## Community Development

Over the past year, FC developed opportunities to maximise the social and community benefits of woodlands in several key areas:

- As part of the review process of the Woodland Grant Scheme we have been looking at ways in which the grants we develop can enable private woodland owners to maximise the social and community benefits derived from their woodland as part of the new Woodland Management Planning process.
- Over this period we have also been working closely with key divisions within the National Assembly, local authorities community groups and the voluntary sector to improve and develop new ways of achieving benefits in the key areas of education and learning for sustainable development, health and community well being, and employment and community development.

The National Assembly's Communities First Programme aims to reduce poverty and improve facilities and services for the 130 poorest communities in Wales, a large proportion of which are within five minutes walk from an Assembly woodland.

Our secondee who was placed with the Assembly's Communities First team at the beginning of 2002 continued as a member of the team during this reporting year. The aim was to provide a link between local communities, partner bodies and forest managers to promote best practice. We have provided support to over 30 partnerships throughout Wales and secured £186.5k for specific work programmes in South Wales.

During the year we also appointed a Community Engagement Advisor and Local Area Managers have attended a bespoke training event.

We have involved Local communities in all Forest Design Plan consultations, sometimes using participatory techniques. Over 40 communities have been involved in the revision of 13 Forest Design Plans.

Following on from the six pilot community consultations undertaken in 2002 in the South Wales valleys, we produced action plans to improve access and the quality of the local environment. This formed part of the Coed I'r Cymoedd - Valleys Woodlands for Valleys People initiative which was aimed at giving people in the South Wales valleys a real say in how the woodlands near their communities are used.

Detailed surveys were concluded in South Wales and North East Wales which identified potential sites for new community woodlands on derelict land and former coalfields.

During the year we developed a 'Volunteering Policy' which has resulted in Local Area Managers and Community Rangers working with increasing numbers of volunteers who are participating in woodland management.

One of the key barriers identified that hinder greater involvement and management of woodlands by local communities is the lack of relevant information and support for communities to establish themselves in this field. As a result, over the past year, the FC has been working closely with the Woodland Trust, the

Countryside Council for Wales, BTCV's Roots of Change programme as well as community groups and voluntary organisations to establish a Community Woodland Network. A pilot has been run by the Woodland Trust in England and this network now plans to expand into Wales offering specific advice and support relevant to the issues of Wales.

New design plans were produced during the year to improve the sense of welcome at forest and woodland entrances. Programmes valued at £400k were completed at dozens of sites in South Wales where 30 managers were trained in internal design principals and practices.

Four recreational facilities were improved with funding from the Assembly's Rural Recovery Fund and new threshold signs, with Assembly attribution, were piloted in South Wales.

In November the Forestry Commission purchased 223 hectares of woodland close to Caerphilly with support from Caerffili County Borough Council and Caerffili Woodlands Trust. This exemplar community woodland provides an impressive visual backdrop to the town and will enhance opportunities for public access.

#### **Intermediate Labour Market (ILM) Employment Programme**

A partnership arrangement was made with Wales Council for Voluntary Action and the National Trust in 2002/03 to help deliver ILMs in North Wales. In collaboration with Forest Enterprise, 16 ILM placements were provided, relating to forestry, environment, conservation, administration and research.

Also this year, Forestry Commission began to develop the first rural ILM programme in the UK entitled 'Community Futures'. This programme aims to provide 230 job opportunities across west and south Wales, over the 30- month life span of the programme. The project planning for this programme has now been completed in consultation with all 11 local authorities in this area, as well as ELWa, WDA, Jobcentres and the relevant voluntary and private sector organisations. A proforma for ESF funding was submitted and has been approved.

#### **Wales Rally GB**

Wales won the bid to retain - and rename - the final stage of the prestigious World Rally Championship for the next four years. Formerly the Network Q Rally, the new agreement for the Wales Rally GB followed months of negotiation led by the Welsh Assembly Government, the Welsh Development Agency and Forestry Commission. The rally runs over miles of high quality forest roads in the Assembly's woodlands and forests of South and West Wales, and is forecast to benefit Wales' economy by over £43 million and be seen or heard by over 260 million people across the world.

#### **The use of the Welsh Language**

The Forestry Commission continued to encourage its staff to learn Welsh through the provision of inhouse training and the opportunity for staff to receive external training in working time. A staff directory of fluent Welsh speakers was completed for all FC offices in Wales. The list was produced to deal with telephone calls from members of the public who had indicated their preference to speak to us in Welsh.

We received more than 60 letters or emails in Welsh of which 95% were answered within the Citizens Charter timescale. Around 30 public meetings were held where simultaneous translation was provided. We issued 132 bilingual press releases where the languages were given equal prominence. Considerable progress has been made on the FC Wales Cymraeg site following an increase in the staff resource able to work on this issue.

There were 422 staff working for the Forestry Commission in Wales at 31st March 2003, and 124 of these people speak Welsh. This is around 29% of our workforce although there is not an even distribution throughout Wales. The Forestry Commission is aware of the need to boost the language capability in those locations where there are deficiencies. There are 40 staff in Wales currently undertaking language training through various language training schemes.

The Forestry Commission was successful at the Welsh Language Board Bilingual Design Awards 2002 held last July. From a shortlist of 10 in the advertising category, FC Wales and its designer Ruth Jén won the trophy for a series of posters depicting Welsh folk stories and legends.

## **2. A New Emphasis on Woodland Management**

Our key objectives for woodland management are to promote best practice; to move to a greater use of continuous cover systems; and to find appropriate sites for new trees and woodland. The following activities provide examples of the way we have addressed these objectives during the year.

### **Tyfiant Coed**

A key feature of the Wales Woodland Strategy was a commitment to move towards continuous cover systems of forest management, where possible, and reduce the reliance on clear felling systems. During the year we continued to work closely with the University of Wales at Bangor to develop Tyfiant Coed, an Objective 1 project designed to help predict the costs and management requirements for conversion of even-aged forests to continuous cover systems. A member of staff from our Research Agency has remained on secondment with the team at Bangor and matched funding to support the project has been obtained from the Welsh European Funding Office.

Farm Timber Processing Grant and the Timber II Grant Scheme  
A co-ordinator, jointly funded by the Forestry Commission and the Welsh Development Agency (WDA), and based at the WDA office in Aberystwyth, was appointed to manage the Farm Timber Processing Grant and the WDA's Timber II grant scheme.

### **Shelterwoods**

In 2001 we introduced a Shelterwoods Grant based upon native woodland which provides environmental improvement and shelter with the aim of improving the viability of upland farms.

The programme, which is part funded under Objective 1, has also been made available across the whole of Wales through Farming Connect.

By the end of March 2003 nearly 200 farms had taken advice from the scheme and half of these have already drawn up plans to create new woodland. These are in various stages of approval but amount to a commitment to plant 180 ha of broad-leaved native woodland over the next season or so. Planting grants along with the 138 kms of fencing grant represent a total grant package available to Welsh farmers of approximately £600,000.

### Wales Forestry Future

This project aims to assist 100 forestry contracting SMEs within the wood supply chain to increase their business competitiveness, and thus become a more sustainable part of the rural economy in the Objective 1 area. The project is supporting and raising standards in these SMEs through the promotion of good environmental and quality practice.

### Funding Partnerships

Following the negotiation of the new Partnership Agreement between all its key funding partners, FC is now contributing £200,000 per annum to support Coed Cymru. We are also continuing to provide funding for the Tir Coed Ystwyth Valley Community project where a Project Officer has been appointed and a skill need analysis undertaken.

### Tir Gofal

The Forestry Commission's Woodland Grant Scheme is the primary mechanism for grant aiding the creation and management of woodlands on farms within the

Tir Gofal agri-environment scheme. All farms with more than 3 ha of woodland are obliged to prepare a management plan for the woodlands and subsequently implement it. The Forestry Commission worked with CCW to develop a management planning process and the organisations worked together to train over 80 people to prepare plans. The FC for grant aids the preparation of these "Native Woodland Plans" and subsequent woodland management is grant aided through the Woodland Grant Scheme.

Progress to date on the preparation and approval of Native Woodland Plans is set out in the table below.

No. of farms with NWP contracts issued	Total Area of Woodland included in NWP contracts	No of Completed NWP received	No of NWP approved by FC	Area of Woodland covered by approved NWP
<b>289</b>	<b>3,395</b>	<b>99</b>	<b>83</b>	<b>796</b>

The Woodland Grant Scheme will also be the mechanism for grant aiding the creation of new woodlands on Tir Gofal farms where there is a total of 0.25ha or more of new planting identified in the Tir Gofal agreement. 2002/03 was the first planting season for this work. In order to facilitate access to the WGS planting grants pre-prepared applications were sent to 136 farmers who had new planting identified on their Tir Gofal contracts. Only 54 were returned and therefore more follow up work is required to ensure that progress is made to planting on Tir Gofal farms.

### **Improvements in Productivity and Wood Quality**

Forest Enterprise is committed to a thinning policy whereby woodlands it manages for the Assembly are progressively brought into a thinning regime. With this in mind, harvesting staff directly employed, or contracted on this operation have received training in thinning control. There has also been investment in equipment better suited to thinning programmes. 5,000 hectares of thinning has been completed through the working block regime.

During the year staff throughout the organisation undertook training in Continuous Cover Forestry (CCF) techniques and shared best practice. A key Operations Guidance booklet on CCF was also produced.

Senior policy staff from the Forestry Commission and the Countryside Council for Wales attended a seminar on the subject and there was also one for harvesting operators.

Our target of increasing the total area designated as continuous cover by 10 % in newly approved Forest Design Plans was exceeded.

Planting was done according to approved Forest Design Plans. As usual, natural regeneration was sporadic with some areas earmarked for broad-leaved natural regeneration having to be planted to achieve regeneration.

During the year two large scale trial areas were established in Assembly woodlands at Clocaenog forest, Denbighshire (4200ha) and Cwm Berwyn forest, Ceredigion (1800 ha). CCF

techniques have been pioneered in both woodlands with transformation leading to an initial simple two-storey structure. Monitoring of the initial intervention in Cwm Berwyn has produced interesting results in terms of spruce regeneration and less than expected windblow

### **Red Squirrel Action Plan**

Clocaenog Forest continued to be managed as a favourable habitat for red squirrels and numbers have been maintained. There has been exemplary LISS red squirrel thinning in which light is given to seedlings whilst maintaining arboreal contact in the canopy.

### **Black Grouse**

Penarfan and parts of Clocaenog Forest continue to be managed as favourable habitats for Black Grouse and numbers have increased as a result of improved habitat management.

### **Scheduled Ancient Monument (SAM) Management Plans**

Two of the four newly Scheduled Ancient Monuments management plans were endorsed by CADW; the other two are still being considered.

### **Stabilising Slips and Tips**

Remedial work to stabilise the former Dare Colliery tip commenced in March 2003 and is due to be finished by August 2004. Work on the landslip at Cwmparc was successfully completed in July.

### **3. Wales as a Location for World Class Forest Industries**

For several years forestry has faced very difficult trading conditions with low process for wood on world markets. However, some 4,200 jobs depend on the home grown timber industry, many of which are linked to rural areas and are significant contributors to local economies.

Our key objectives have been to provide Welsh forest industries with effective business support; to develop the wood supply chain, product development and marketing; to provide support for farm woodlands and the wider rural economy; and to foster the development of renewable energy based on wood. In addition to the Farm Woodland and Biomass Strategy our main activities have been:

Working with the Welsh Development Agency and Forest Industries and Environmental Bodies we liaised closely with the Countryside Council for Wales in producing a spatial plan for wind energy installations and several individual windfarm proposals were progressed including the Cefn Croes scheme in Mid Wales.

The review of low sensitivity sites was delayed pending the production of the final report by the Assembly's Economic Development Committee. This report was published in January 2003. FC will now undertake this review during 2003/2004.

We were unable to complete our planned review of forest based economic activity. This is now scheduled to be undertaken during 2003/04.

We continued to work closely with the Welsh Development Agency (WDA) and partners throughout the forest industries sector. A Forestry Commission employee continued his secondment to the WDA to work under the WDA's Timber II programme, a project which aims to stabilise and stimulate growth in the timber processing sector in the Objective 1 area. The project has directly addressed gaps in support for the timber-processing sector that have been identified in recent studies. This direct support takes the form of business/technical diagnostic reviews; grant aid for equipment and networking.

#### **Bodnant Gardens Leader + project**

Forestry Commission has taken the lead in a partnership known as 'The Green Man' which aims to develop a North Wales woodland products outlet. A member of FC Wales staff has been seconded to work on the project that is a partnership based in the Conwy Borough area comprising the Conwy Leader + group, Conwy Borough County Council and the Snowdonia National Park Authority as well as the Forestry Commission.

The project aims to develop a co-operative structure for local woodworkers, carpenters and crafts people and to develop an appropriate marketing structure and physical outlet for co-operative products as well as adding value to timber from local sources. Forestry Commission was asked by the other partners to run the project.

#### **Forestry Contractors Association (FCA)**

We continued to support the FCA's Objective 1 "Wales Forestry Future" project and we also assisted the Powys Forestry Training Network in the Objective 3 area of Wales.

### **Timber Markets**

Despite difficult trading conditions, 1,114,000 m<sup>3</sup> of timber was brought to the market, 11.4% above our target. Export opportunities have been developed to ensure that short and medium term markets continue for the virgin timber displaced by timber recycling initiatives.

Efforts were made, with signs of real success, to develop the fencing sector and displace imported fencing material.

The number of Christmas trees placed to the market was less than the planned target of 10,000 Noble Fir and 5,000 other species but market opportunities were developed during the year with a view to obtaining greater market penetration in 2003.

### **Long-term Contracts**

Medium and long-term service contracts were developed and let in Harvesting, Marketing and Silviculture. These contracts provided SMEs with business confidence to invest in equipment, staff and skills.

### **Haulage of timber**

FC Wales Staff have been supporting the work of the Wales Timber Transport Forum that aims to improve the efficiency of timber haulage that aims to benefit timber producers, hauliers and the processing industry through the more efficient use of the rail and road haulage network.

### **FC Signs Unit**

Our Signs Unit at Maesgwm was awarded an FSC Chain of Custody Certificate, that allows us to manufacture, erect, and market products that are now certified as coming from Sustainably Managed Forests.

### **Visit to Wales by Latvian Foresters**

A senior delegation from the Latvian State Forestry Service visited Wales in July, having been told about the Welsh Assembly's Woodland Strategy by Talis Kalnars. Mr Kalnars, a highly respected forestry consultant, is himself a Latvian who has worked in Wales since 1959. The delegation was particularly interested in the development of the strategy and how the Forestry Commission propose implementing the move away from plantation forestry systems, over time, to more natural processes using, where appropriate, continuous cover.

### **Joint Development Initiative**

This project is using an integrated approach to the challenges faced by the Welsh wood chain sector in its transition to operating as a modern regional industry. It is mainly a 'learning activity' project, which will produce high-value supply capacity across the whole sector - from growing to secondary processing. Its goal is to work with 500 SMEs and assist 1500 employees.

### **Timber II**

The project aims to stabilise and stimulate growth in the timber processing sector in the Objective 1 area which is mainly comprised of small and micro SMEs. The direct support takes the form of business and technical diagnostic reviews: grant aid for equipment and networking. It aims to assist 115 timber SMEs, safeguarding 108 jobs.

## 4. A Diverse and Healthy Environment

Well managed woodlands can deliver a range of diverse outputs and are exemplars of sustainability. To achieve true sustainability, the physical and biological resources within forests, such as water, soil, flora and fauna, must be maintained or improved. Our key objectives are to conserve and enhance the biodiversity of our woodlands; to conserve and enhance the landscapes of Wales; and to better integrate woodlands with other countryside management. Our key achievements during the year were:

### Supporting Woodland Species Conservation

A draft plan has been developed which is contributing to the Grants and Licences Review by FC in Wales. The report has identified 15 high priority, 20 medium and 37 low priority species for action by FC and there has been a limited consultation with key partners including the Countryside Council for Wales.

### Fishing Wales

The Forestry Commission has contributed to this Environment Agency-led project. The project overall looks at improving angling in Wales, through improving river habitat, angling facilities and marketing the angling potential of the area. Targeted improvements to managing riparian zone woodlands will contribute to enhancing the fish breeding habitat and hence to the overall success of the project.

### Aren't Welsh Birds Brilliant

FC is a partner in this RSPB-led project, which aims to improve the breeding populations of 7 rare bird species in Wales and to raise public awareness of these species and other birds. The FE contribution relates to the Black Grouse and recognises the important role the Forestry Commission plays in managing key areas of its forests for this magnificent bird.

### Special Areas of Conservation

The Forestry Commission is leading this partnership which aims to restore some of the internationally important Atlantic oak woodlands in north west Wales, through the Meirionnydd Oakwoods Habitat Management Project. This involves a partnership of 15 organisations including government bodies, environmentally based charities and private companies. The work will focus on the careful removal of planted conifers; the control of invasive species and the reinstatement of traditional management techniques such as coppicing, as well as maximising the wildlife, recreation & educational potential of the woodlands. A £2million Objective 1 bid has been submitted, and if approved the partners plan to start work in early 2004.

### Restoration of Plantations on Ancient Woodland Sites (PAWS)

Both the public and private sector are involved in an application to access Objective 1 funds to help kick-start the process of restoring planted ancient woodland sites. Forestry Commission together with the Woodland Trust have an application under development. It is hoped that work will be able to commence in early 2004.

### Restoration of Ancient Woodlands

Restoration through thinning operations continued in ancient woodland sites throughout Wales. The FC Ancient Woodland Survey completed in 2002 resulted in the production of a draft Ancient Woodlands Restoration strategy. Two Objective 1 bids were submitted to restore Assembly owned ancient woodlands.

Survey methodology continued to be developed along with a GIS based monitoring and reporting system. A Conservation GIS extension pilot commenced and a habitat recording system was designed although this has yet to be populated with data.

### **New Upland Native Woodland**

In Gwynedd, a major forest clearance project began that will pave the way for the creation of Wales's largest ever new upland native woodland. During the year work continued on harvesting the 30-year-old forest at Coed y Mynydd, near Dolgellau which FC originally planted as part of a MOD land reclamation programme.

The mature conifer trees are being felled and more than 100,000 tonnes of timber will be taken off site over the course of the next three years. Due to the previous use of the site as an MOD firing range the work is being done under highly controlled conditions to ensure the safety of all the staff and private contractors involved in the work and also any member of the public who might be in the area.

Seeding of the felled area with native species such as birch, oak and ash has started and the initial results are very encouraging.

### **Environmental Site Assessment**

An Environmental Site Assessment scoring system was produced and tested in the forest with our Harvesting Unit. It aims to provide managers with a method of assessing the impact of our operations on the forest environment.

### **National Inventory of Woodland and Trees in Wales**

The National Inventory of Woodland and Trees in Wales, the most comprehensive survey of Wales's woodland cover ever undertaken was published in 2002.

The survey revealed that the area of Wales covered by woods and forests increased by over 45,000 hectares to 286,769 hectares since the previous survey in 1980. Over the past 50 years (since 1947) woodland cover has doubled.

The total area covered by trees increased from 11.6 per cent to 13.8 per cent between 1980 and 1997 - continuing the rising trend since Ministry of Agriculture surveys began in 1871, when less than three per cent of Wales was covered by trees.

Other highlights of the Inventory were that:

- There were 9,631 woods greater than 2ha (5 acres) in Wales, and 23,405 woods of less than 2ha.
- The Welsh Assembly Government owned or leased 119,979ha, or 44 per cent of woodland over two hectares, with 150,056ha in other ownership's;
- Conifer woodland represented 47.9 per cent of all woodland, broad-leaved 37.3 per cent, mixed woodland 7.7 per cent, and open space within woodlands 3.8 per cent;
- The main conifer species was Sitka spruce which covered 83,891ha. The main broad-leaved species was oak, covering 42,918ha;
- The area of broad-leaved woodland had increased since 1980, with the relative proportions of broadleaf's to conifers increasing from 29 per cent to 44 per cent;
- Wales had 15.33 million live trees outside woodland.

### **Forestry Commission Wales Seminar.**

A bilingual seminar entitled 'A future Forest Economy in Wales' was very successful with well over 100 people in attendance. The Seminar was held to help the farming and timber communities looking for alternative business opportunities and to show how diversifying individual businesses often has a positive impact on the wider rural economy. The Seminar stressed how by making these links with other business sectors such as tourism and energy and thinking about the needs of local communities in areas like education, health and employment; woodland businesses could have a positive impact in rural Wales.

### **Environment Conference**

FC in partnership with the Countryside Council for Wales, the Environment Agency and the National Assembly successfully ran a national conference on Environmental Sustainability. The conference followed on from the post Johannesburg conference in Swansea and aimed to pursue the solutions to policy integration across government and organisation. FC work with south Wales communities was put forward as an exemplar of community engagement and the UK Forest Partnership for Action was issued as an exemplar for working with industry in the post conference feedback.

## **5. Tourism, Recreation and Health**

Trees and woodlands are prominent in the landscape, especially in some of the most beautiful parts of Wales, playing a vital role in tourism.

Woodlands also provide a landscape structure and a setting for many tourist enterprises. They are also places to visit in their own right. Over 11 million visits are made to Welsh woodlands each year and, with the demand for outdoor recreation increasing, this number is rising.

Our key objectives for promoting tourism and health are:

- To use woodlands to help create a high-quality visitor experience; and
- To promote health through access to woodlands for all communities.

Key achievements this year were:

### **Countryside and Rights of Way (CROW) Act 2000**

The Forestry Commission has taken the lead on developing the 'Dedicators Pack' in response to the secondary legislation laid by WAG in January 2003 under the Countryside and Rights of Way Act (2000). Relevant Authority capacity has been developed in partnership with CCW and the National Park Authorities in Wales, with significant FC inputs to the development of the restrictions regime guidance and the IT development to manage the new statutory function. Forest Enterprise, in readiness for dedication under the CROW Act, has completed a leasehold land study. In addition, preliminary programmes have been drafted that will secure dedicated access over most of the Assembly's freehold woodland estate by the target date of spring 2005.

## Recreation Strategy

The Recreation Strategy was launched by Lord Clark at the Royal Welsh Show. This document describes our strategy for access and recreation under the following 6 headings:

### Sustainable Development:

by adopting an integrated and partnership approach to our recreation activities

### More Access:

by providing new access opportunities and facilities in forests and woods

### More Fun and Learning:

through better opportunities to enjoy and learn from the experience

### Holidays in the forest:

by providing overnight accommodation facilities and encouraging people to stay for longer

### Opportunities for All:

promoting what we have to offer and attracting more visitors, many for the first time

### Making it Work:

by providing a quality service, proving that people matter to us.

## Promoting healthy lifestyles and supporting tourism and local businesses

Sustainable tourism initiatives were developed with partners at:

- Nant y Arian Visitor Centre, Ceredigion
- Coed y Brenin Forest Park, Gwynedd
- Brechfa Mountain Biking Trails, Carmarthen
- Wild Watch Wales in Powys
- Gwydyr Forest Park, Conwy
- Afan Forest Park, Neath Port Talbot

## Partnership programmes with CCW, Sports Council Wales and Health Promotion Wales

This year we developed partnership programmes to encourage healthy living through forest recreation with a number of organisations –

- Guided walks and exercise referrals with the GP practice in Llanymddyfi;
- Calorie mapping project with Aberystwyth University;
- Healthy lifestyle days with Powys Health Alliance at Ystradgynlais;
- Penpych walks - Rhonda Cynon Taff Borough Council;
- Ceredigion Sure Start for young mothers and children;
- Towy Valley Walking Your Way to Health Scheme;
- Monmouthshire County Council and others Walking the Way to Health Scheme.

## New cabin and camp sites

Further preparatory work was done on the assessing the sites identified in last year's report on potential new cabin sites within Assembly owned woodlands in Wales. Discussions with possible neighbouring landowners have taken place and more detailed assessment of the proposed site in Gwydyr forest is being undertaken ahead of events to engage the local community in the proposal.

Further surveys are planned to identify other potential sites for smaller scale tourism based attractions.

## Visitor Centres

Plans are well advanced for the improvement of the Visitor Centres at Nant yr Arian near Aberystwyth, and Coed y Brenin near Dolgellau. Funding bids are being completed to allow the major re-development of these facilities, building on our recent success in increasing the numbers of tourists to these facilities and providing increased opportunities to the tourist economy in these locations.

### **People in the Forestry Commission**

The Queen approved the extension to the appointment of non-executive Commissioner Gareth Wardell, for a further term of six months until 30th March 2003. Mr Wardell, a lecturer and Board Member of the Environment Agency, was appointed a Forestry Commissioner in 1999.

As part of the changes to the Commission's set-up arising from the Forest Devolution Review, Chief Conservator Simon Hewitt has been appointed Director Wales with effect from April 1 2003. He will also represent Wales on the Board of Forestry Commissioners.

### **Forest Devolution Review**

The Forestry Commission in Wales is to become more directly accountable to the Welsh Assembly Government following a comprehensive review in response to devolution four years ago.

The re-arrangement of the administrative arrangements for forestry across Britain was agreed by the Assembly's Rural Development Minister and his fellow Forestry Ministers following the recommendations of the Forestry Devolution Review.

The wide-ranging interdepartmental review of how sustainable forestry policies should be developed post-devolution has paved the way for much greater integration between the Commission's National Office in Wales and the Assembly's Agriculture and Rural Affairs Department.

The Forestry Commission's Forest Enterprise agency, which manages Wales's public forests on behalf of the Assembly but as part of a GB-wide agency, will become a separate Welsh

entity, but will function as part of the National Office for Wales and will be dedicated to looking after this huge land area of over 320,000 acres (130,000 hectares).

### **Recruitment**

A number of new education and community rangers were recruited during the year to support the social objectives of the Welsh Assembly Government.

### **Trial Apprentices Scheme**

We participated in a trial apprentices scheme for forestry machine operators, in association with agricultural colleges, to try to address the shortage of skilled machine operators within the industry. Ten operators were placed with the Wales Harvesting and Marketing Unit (Wham) Fleet which resulted in two securing permanent, full time employment.

### **The Story of the Forest Project**

The Story of the Forest project, which was supported by the Heritage Lottery Fund, is an important collection of taped interviews and old photographs capturing the memories of those whose lives were changed forever as the Forestry Commission's programme of afforestation dramatically altered the rural landscape of Wales.

Under the guidance of Project Manager, Dr Caroline Earwood, six community co-ordinators across Wales gathered information and anecdotes that have been recorded onto CDs.

Following completion of the Project, the Story of the Forest exhibition was opened by Minister for Rural Development Mike German in November and since then it has been touring communities across Wales.

The project is now archived at The National Library permanently for future generations. Copies were also deposited at the Museum of Welsh Life in St Fagans and in all the communities that contributed to the project.

The Commission has applied to the Heritage Lottery Fund for continued support to extend the project for another four years to cover the remaining rural forests managed by FE Wales.

### **Modernising Government**

During the year, 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).

The main change will be the implementation of the Forestry Devolution Review.

### **Forestry Devolution Review**

As reported last year, Forestry Ministers announced a wide-ranging interdepartmental review of the administrative arrangements for developing sustainable forestry policies post-devolution in December 2001.

Ministers agreed the recommendations of the Forestry Devolution Review in August 2002 and expressed their support for the delivery of forestry policy by the Forestry Commission. The Review recommended changes to achieve greater integration of forestry with other rural policy work in England, Scotland and Wales whilst retaining desirable opportunities for a collaborative approach to common issues.

We welcomed this vote of confidence in our role and what we deliver, and immediately began to implement the required changes. The changes agreed by Ministers, and the actions we have subsequently taken are outlined below:

- much greater integration of policy development and delivery between the Forestry Commission's National Offices and the rural affairs departments in England, Scotland and Wales. This will be underpinned by concordats worked up individually between each rural affairs department and the relevant Forestry Commission National Office.
- devolving the Forestry Commission's Forest Enterprise agency into three bodies, charged with managing separately the public forests in England, Scotland and Wales;
- an enhanced role for the devolved administrations in Scotland and Wales in determining research priorities, with joint approval by forestry Ministers of the research strategy and annual research programme;
- enhanced representation from England, Scotland and Wales on the Board of Forestry Commissioners. We have appointed an Executive and two Non-executive Commissioners for each country. The Board has also delegated to National Committees in each country responsibility for country-specific issues;
- a new ministerial committee, involving Ministers from England, Scotland, Wales and Northern Ireland, to discuss international issues and any cross-cutting issues where collaboration would be advantageous and to monitor the effectiveness of these new arrangements. The new Forestry Ministers' Group met for the first time in February 2003.

In implementing the changes we aimed to maximise the benefits to enable the Forestry Commission to:

- deliver the administration's objectives in each country, not as arms length "partners" but as full members of the Minister's team;
- lead with confidence on UK and GB matters with the support of the UK Government and the devolved administrations;

reap the benefits of the experience at our disposal throughout GB and of efficient central services.

This has involved extensive restructuring of the organisation's structure to enable us to continue to improve delivery of the country forestry strategies in England, Scotland and Wales. Much of the responsibility for delivery that remained at our headquarters at Silvan House has been devolved to our National Offices, whose teams have been strengthened accordingly. Details of our new organisational structure can be found at Appendix 1.

Following internal re-organisation, Simon Hewitt, former Chief Conservator of FCW, has been appointed Director of FC Wales, which includes the Forest Management body headed by Dr Bob Farmer, working from the FCW National Office in Aberystwyth. The arrangements for managing the national forests in Wales by the Forestry Commission will be the subject of a separate review during the course of 2003. Simon will continue to be a member of the Minister's Progress Group and of the new FC National Committee for Wales to which the Forestry Commissioners have largely delegated their functions in Wales.

### **Staff Connect**

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 over 500 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, through better use of email to distribute fortnightly to all staff "Connect Bulletins" of items of general interest and through an increase in the amount and accessibility of information on our intranet.
- Greater use of non-pay rewards for staff, from a simple "thank-you" to a one-off award of 5 days extra holidays in staff's 20th year of service in the Commission and better facilities for staff who cycle to work.
- A revised course for recruits to the Commission, to improve the effectiveness of new staff. During the year, 156 people attended 11 courses.

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, over 40% of our services were fully accessible and more than 20% partly accessible.

- Greatly increased use of our website, thanks to widening its content and ensuring the freshness of its approach (for instance, publicising seasonal activities in our woodlands). Website traffic increased by 84% over the year.

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 our Forest Enterprise executive agency, won re-accreditation. The assessors noted tangible improvements in performance since the original accreditation.

The November 2002 GB Staff Survey, too, showed progress. Indeed, of the 160 questions asked, only 12 showed a poorer performance and there were big improvements in team working, leadership, diversity and training. Staff who thought that morale in their unit was high increased by 24% and those who would recommend the Commission as a place to work had increased by 25%. Almost half of staff felt that the Commission was a better place to work than it had been at the time of the last survey only 2 years ago. 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 & 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 & licences (G&L) administration. Work has now started to develop a new IT system (known as GLADE) 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 3 country specific grant schemes so each country is represented within the GLADE project team to ensure that it delivers the country business requirements. In addition, the Forestry Industry 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 practises. 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.

#### **New Years Honours**

Roger Nock, Harvesting Manager for the Forestry Commission in South Wales, was appointed MBE. Mr Nock is an active member of the local community. He has been Treasurer of Llanfihangel Rhos Y Corn Community Council for three years and Chairman for 10, giving much of his time and energy voluntarily for the benefit of the community. His most notable efforts include his work with landowners to re-establish the Public Rights of Way network and running first aid courses. Roger has served for three years as a governor of his local primary school in Brechfa and has supported many fundraising events. His Forestry Commission career has been exemplary and one of his most enjoyable achievements was taking the lead in the construction of the Forestry Commission's log cabin at the Royal Welsh Showground in 1978.

## Financial highlights

### Summary Income and Expenditure Account for the year ended 31 March 2003

	2002-03	2001-02
	£000	£000
<b>Income</b>		
<b>Forestry Commission</b>		
EU co-financing of woodland grants	649	765
Miscellaneous income	1,059	63
<b>Forest Enterprise</b>		
Sales of Timber	15,882	15,831
Other forest income	2,975	2,680
Recreation income	1,735	1,134
	<b>22,300</b>	<b>20,473</b>
<b>Expenditure</b>		
<b>Forestry Commission</b>		
Grants and partnership funding	4,944	2,573
Policy, regulation and administration	4,110	2,917
<b>Forest Enterprise</b>		
Planning, protecting and maintaining the forest asset	7,653	7,611
Social and environmental	7,541	4,604
Timber harvesting and roads	12,616	12,011
Managing the non-forest assets	4,924	5,326
	<b>41,788</b>	<b>35,042</b>
<b>Net expenditure for the year</b>	<b>(19,488)</b>	<b>(14,569)</b>

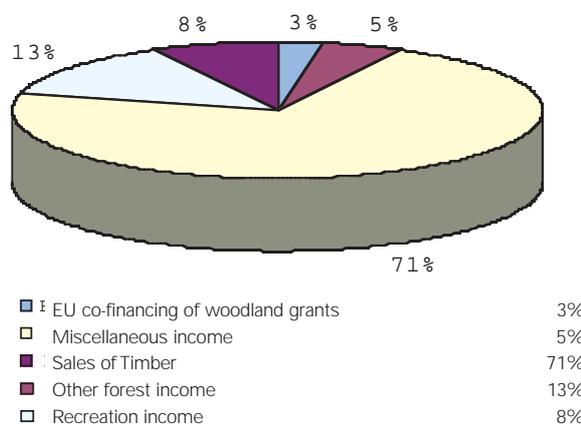
### Summary Cash Flow statement for the year ended 31 March 2003

	2002-03	2001-02
	£000	£000
<b>Net expenditure for the year</b>	<b>(19,488)</b>	<b>(14,569)</b>
Depreciation and other non-cash items	725	608
Movement in working capital	59	536
Movement in provision and liabilities	356	(84)
<b>Net cash flow from operating activities</b>	<b>(18,348)</b>	<b>(13,509)</b>
New planting	0	(5)
Purchase of fixed assets	(662)	(1,243)
Net proceeds from disposal of fixed assets	357	503
<b>Funding from Welsh Assembly</b>	<b>(18,653)</b>	<b>(14,254)</b>

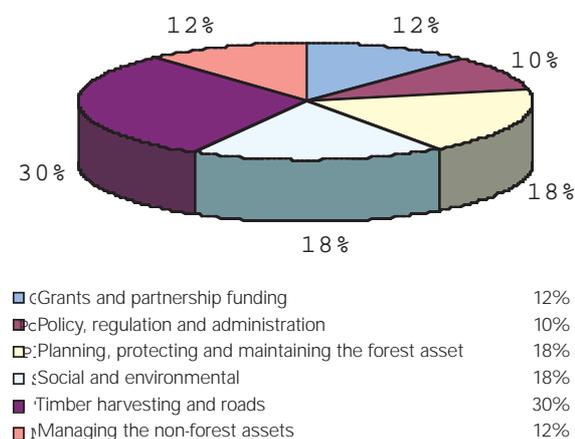
### Summary Balance Sheet as at 31 March 2003

	2002-03	2001-02
	£000	£000
Fixed assets	142,093	157,123
Debtors falling due after more than one year	67	49
Current assets	7,040	6,783
Creditors: amounts falling due within one year	(3,503)	(3,297)
Net current assets	3,537	3,486
Creditors: amounts falling due after more than one year	(361)	-
Provision for liabilities and charges	(556)	(143)
<b>Total assets less liabilities</b>	<b>144,780</b>	<b>160,515</b>
<b>Capital and reserves</b>	<b>144,780</b>	<b>160,515</b>

### Income 2002 - 03



### Expenditure 2002 - 03



# Resource Accounts

for the year ended 31 March 2003



# Contents

Annual Report	26
Statement of Forestry Commissioners' and Accounting Officer's Responsibilities	35
Statement on Internal Control	36
The Certificate and Report of the Auditor General for Wales	38
The Accounting Schedules:	
Schedule 1 – Summary of Resource Outturn	40
Schedule 2 – Operating Cost Statement	41
Schedule 3 – Balance Sheet	42
Schedule 4 – Cash Flow Statement	43
Schedule 5 – Resources by Departmental Aim and Objectives	44
Notes to the Accounts	45
Accounts Direction given by the Treasury	60

# Annual Report

## Scope

### 1. Basis of Accounts

These accounts are prepared in accordance with the Accounts Direction issued by HM Treasury under Paragraph 5 of Schedule 7 to the Government of Wales Act 1998.

### 2. Departmental Accounting Boundary

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

- the core-department (the Forestry Commission) in Wales

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 Wales 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 Scotland.

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

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. Wales will therefore have its own agency.

The Forestry Commission does not have 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 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 the 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 Wales, it implements the strategic objectives and key priorities for action of the National Assembly's strategy for trees and woodlands in Wales, 'Woodlands for Wales', which are to:

- support community development ('Woodlands for People');
- create more and better woodlands in Wales, promoting high quality woodland management ('A New Emphasis on Woodland Management');
- develop Wales as a world-class location for forest industries (Wales as a Location for World-Class Forest Industries);
- produce a first-quality sustainable environment (A Diverse and Healthy Environment); and
- promote tourism, recreation and health (Tourism, Recreation and Health).

## 6. Departmental Report

The Forestry Commission in Wales' spending plans were published as part of the National Assembly for Wales' budget.

The Forestry Commission in Wales' Corporate Plan was published in June 2002.

## 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.

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 Wales is based in Aberystwyth and is responsible for leading implementation of "Woodlands for Wales", the Assembly's strategy for trees and woodlands in Wales. The area offices in Ruthin and Abergavenny support field staff throughout Wales carrying out regulatory and grant support functions.

Forest Enterprise is responsible for managing the Commission's estate on behalf of the Welsh Assembly Government. Forest Enterprise has an office for Wales in Aberystwyth and 4 Forest Districts throughout Wales.

## 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 department's aim in Wales is to implement the strategic objectives and key priorities set out in "Woodlands for Wales" and to contribute to the National Assembly's priority areas of social inclusion, learning, promoting health, supporting businesses (particularly in rural areas) and improving the environment.

## 11. Performance in the period

The Forestry Commission's Corporate Plan for Wales 2002-03 sets out the programmes and actions for 2002-03. They 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.

## Wales Woodland Strategy

- Woodlands for People
- A New Emphasis on Woodland Management
- Wales as a Location for World-Class Forest Industries
- A Diverse and Healthy Environment
- Tourism, Recreation and Health
- Value for Money

The GB targets have been met within the period covered by Spending Review 2000. The majority of the targets related to Woodlands for Wales have been met.

## 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 arrangement 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.

### 13. Investment for the future

The development of a web-enabled grant system continued this year, working towards a fully integrated system in 2005. The system forms part of the department's "Modernising Government" agenda and will produce efficiency savings in grant delivery costs in future years.

### 14. Financial review

Cash funding for activities in Wales comes from the Welsh Assembly Government, 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.

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.

## Management

### 15. Ministers

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

Michael German AM      Minister of Rural Development and Wales Abroad from 17 June 2002

Carwyn Jones AM      Minister for Rural Affairs until 16 June 2002

### 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:

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

Assembly Members' remuneration is determined by the Assembly under the provisions of section 16 of the Government of Wales Act.

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.

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

### 21. Auditors

The accounts of the Forestry Commission in Wales are audited by the Auditor General for Wales.

D J Bills CBE  
Accounting Officer  
17 November 2003

## Statement of Forestry Commissioners' and accounting officer's responsibility

1. Under paragraph 5 of Schedule 7 to the Government of Wales Act 1998, the Forestry Commission is required to prepare resource accounts for each financial year, in conformity with a Treasury direction, detailing the resources acquired, held or disposed of during the year and the use of resources by the department during the year.
2. The resource accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the department, the net resource outturn, resources applied to objectives, recognised gains and losses and cash flows for the financial year.
3. HM Treasury has appointed the Permanent Head of Department as Principal Accounting Officer of the department with overall responsibility for preparing the department's accounts and for transmitting them to the Auditor General for Wales.
4. In preparing the accounts the Principal Accounting Officer is required to comply with the Resource Accounting Manual prepared by HM Treasury, and in particular to:
  - observe the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
  - make judgements and estimates on a reasonable basis;
  - state whether applicable accounting standards, as set out in the Resource Accounting Manual, have been followed, and disclose and explain any material departures in the accounts;
  - prepare the accounts on the going concern basis.
5. In addition the Director General of the Forestry Commission, as Principal Accounting Officer, has designated the Chief Executive of Forest Enterprise as the Accounting Officer for the Agency. This appointment does not detract from the Head of Department's overall responsibility as Accounting Officer for the department's accounts.
6. The responsibilities of the Director General, as Principal Accounting Officer, including responsibility for the propriety and regularity of the public finances for which an Accounting Officer is answerable, for keeping proper records and for safeguarding the department's assets, are set out in the Accounting Officers' Memorandum, issued by the Treasury and published in Government Accounting. Under the terms of the Accounting Officers' Memorandum, the relationship between the department's Principal Accounting Officer and the Chief Executive of Forest Enterprise, together with their respective responsibilities, is set out in writing.

## Statement on Internal Control

1. As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of departmental policies, aims and objectives, set by Ministers, whilst safeguarding the public funds and departmental assets for which I am personally responsible, in accordance with the responsibilities assigned to me.
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 Treasury guidance.
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 Accounting 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.
  - 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  
Accounting Officer  
17 November 2003

# The Certificate and Report of the Auditor General for Wales to the Members of the National Assembly for Wales

I certify that I have audited the financial statements on pages 40 to 59 under paragraph 6 of schedule 7 to the Government of Wales Act 1998. These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and stocks and the accounting policies set out on pages 45 to 48.

## Respective responsibilities of the Accounting Officer and Auditor

As described on page 35, the Accounting Officer is responsible for the preparation of the financial statements in accordance with the Government of Wales Act 1998 and Treasury directions made thereunder and for ensuring the regularity of financial transactions. The Accounting Officer is also responsible for the preparation of the other contents of the Accounts. My responsibilities, as independent auditor, are established by statute and guided by the Auditing Practices Board and the auditing profession's ethical guidance.

I report my opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Government of Wales Act 1998 and Treasury directions made thereunder and whether, in all material respects, the expenditure and income have been applied to the purposes intended by the National Assembly for Wales and the financial transactions conform to the authorities which govern them. I also report if, in my opinion, the Annual Report is not consistent with the financial statements, if the Department has not kept proper accounting records or if I have not received all the information and explanations I require for my audit.

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

I review whether the statement on page 36 reflects the Department's compliance with Treasury's guidance 'Corporate Governance: Statement on Internal Control'. I report if it does not meet the requirements specified by Treasury or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements.

## Basis of audit opinion

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

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by error or by fraud or other irregularity and that, in all material respects, the expenditure and

income have been applied to the purposes intended by the National Assembly for Wales and the financial transactions conform to the authorities which govern them. In forming my opinion I have also evaluated the overall adequacy of the presentation of information in the financial statements.

## Opinion

In my opinion:

- the financial statements give a true and fair view of the state of affairs of the Forestry Commission in Wales at 31 March 2003 and of the net resource outturn, resources applied to objectives, recognised gains and losses and cash flows for the year then ended, and have been properly prepared in accordance with the Government of Wales Act 1998 and directions made thereunder by Treasury; and
- in all material respects the expenditure and income have been applied to the purposes intended by the National Assembly for Wales and the financial transactions conform to the authorities which govern them.

I have no observations to make on these financial statements.

John Bourn

Auditor General for Wales  
National Assembly for Wales  
Cardiff Bay  
Cardiff CF99 1NA

4 December 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 Expenditure	A-in-A	Net Total	Gross Expenditure	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	32,453	-	32,453	28,678	-	28,678	3,775	24,538
Net cash requirement	18,653	-	18,653			18,505	148	14,254
Reconciliation of resources to net cash requirement	Note	£000	£000	£000	£000	£000	£000	£000
<b>Net total resources</b>			<b>32,453</b>			<b>28,678</b>	<b>3,775</b>	<b>24,538</b>
Capital:								
Purchase of fixed assets	6		-			14	(14)	9
Investments			-			-	-	-
<b>Non-operating cost A in A:</b>			-			-	-	-
<b>Accruals adjustments:</b>			-			-	-	-
Non-cash items	3		-			(21)	21	(31)
Changes in working capital other than cash	8					(305)	305	308
Changes in creditors falling due after more than one year			-			-	-	-
Use of provision	13		-			(18)	18	26
Non-cash inter-country transfers	14		-			(17)	17	(12)
<b>Other adjustments:</b>			-			-	-	-
Adjustment of FE net deficit to financing	4		(13,800)			(9,826)	(3,974)	(10,584)
<b>Net cash requirement</b>			<b>18,653</b>			<b>18,505</b>	<b>148</b>	<b>14,254</b>

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

(i) The Forestry Commission Sub-Expenditure Group (SEG) was underspent by £2.0 million because the demand-led grant expenditure had not fully recovered from the effects of foot and mouth and was also affected by a review of the grant schemes on offer.

(ii) The Forest Enterprise Sub-Expenditure Group (SEG) was underspent by £1.58 million. Cost of capital was £5.2 million below estimate because the valuation of the forest estate was below the forecast provided by external valuers as part of Spending Review 2002. This was offset by increased spending on social and environmental projects and lower timber receipts.

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

(i) There was an underspend on net capital of £0.45 million to offset some of the effect of lower timber receipts.

(ii) Trade creditors were higher than anticipated at the time of the estimate because of money owed on an increased number of partnership projects.

### Prior period adjustments:

No explanation required.

### Analysis of income payable to the Consolidated Fund

	2002-03		2001-02	
	Income	Receipts	Income	Receipts
	£000	£000	£000	£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 £28,678,132.94. Actual amount of savings in resources over Estimate £3,774,867.06.

### Actual outturn - cash

Net cash requirement: Outturn net requirement £18,504,605.92 which is £148,394.08 less than Estimate.

The notes on pages 45 to 59 form part of these accounts.

## Schedule 2

### Operating Cost Statement for the year ended 31 March 2003

		2002-03		2001-02	
	Note	£000	£000	£000	£000
<b>Administration Costs</b>					
Staff costs	2		1,697		1,311
Other administration costs	3		1,419		1,098
<b>Gross Administration Costs</b>			<b>3,116</b>		<b>2,409</b>
Operating income	3		(1,059)		(63)
<b>Net Administration Costs</b>			<b>2,057</b>		<b>2,346</b>
<b>Programme Costs:</b>					
Request for Resources 1					
Expenditure	4	27,270		22,957	
Less income	4	(649)		(765)	
<b>Net Programme Costs</b>			<b>26,621</b>		<b>22,192</b>
<b>Net Operating Costs</b>	5		<b>28,678</b>		<b>24,538</b>
<b>Net Resource Outturn</b>	5		<b>28,678</b>		<b>24,538</b>

### Statement of Recognised Gains and Losses for the year ended 31 March 2003

		2002-03		2001-02	
	Note	£000	£000	£000	£000
Revaluation surplus/(deficit) for the year	15		(1)		1
In year movement in FE revaluation	15		(11,907)		(5,111)
<b>Total recognised gains and losses for the year</b>			<b>(11,908)</b>		<b>(5,110)</b>

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

The notes on pages 40 to 59 form part of these accounts.

## Schedule 3

### Consolidated Balance Sheet for the year ended 31 March 2003

		2002-03		Restated 2001-02	
	Note	£000	£000	£000	£000
<b>Fixed Assets</b>					
Tangible assets	6	35		37	
Intangible assets		-		-	
Investments	7	144,819		160,300	
			<b>144,854</b>		<b>160,337</b>
<b>Debtors falling due after more than one year</b>	10		<b>48</b>		<b>29</b>
<b>Current Assets</b>					
Stocks	9	1		-	
Debtors	10	445		468	
Cash at bank and in hand	11	219		71	
			<b>665</b>		<b>539</b>
<b>Creditors (amounts falling due within one year)</b>	12		<b>(707)</b>		<b>(257)</b>
<b>Net Current Assets</b>			<b>(42)</b>		<b>282</b>
<b>Total assets less current liabilities</b>			<b>144,860</b>		<b>160,648</b>
<b>Provisions for liabilities and charges</b>	13		<b>(80)</b>		<b>(62)</b>
			<b>(80)</b>		<b>(62)</b>
			<b>144,780</b>		<b>160,586</b>
<b>Taxpayers' equity:</b>					
General fund	14		117,105		116,103
Revaluation reserve	15		27,675		44,483
			<b>144,780</b>		<b>160,586</b>

The notes on pages 40 to 59 form part of these accounts.

D J Bills CBE  
Accounting Officer  
17 November 2003

## Schedule 4

### Cash Flow Statement for the year ended 31 March 2003

		2002-03	2001-02
	Note	£000	£000
Net cash outflow from operating activities		(18,491)	(14,245)
Capital expenditure and financial investment	6	(14)	(9)
Financing		18,653	14,254
<b>Increase in cash in the period</b>	11	148	-
<b>Reconciliation of operating cost to operating cash flows</b>			
Net operating cost		(28,678)	(24,538)
Adjustments for non-cash transactions	3/4	9,847	10,615
Non-cash inter-country transfers	14	17	12
Adjustments for movements in working capital other than cash	8	305	(308)
Use of provisions		18	(26)
Net cash outflow from operating activities		(18,491)	(14,245)
<b>Analysis of capital expenditure and financial investment</b>			
Tangible fixed asset additions	6	(14)	(9)
Proceeds of disposal of fixed assets		-	-
Loans to other bodies		-	-
Repayment of loans to other bodies		-	-
<b>New cash outflow from investing activities</b>		<b>(14)</b>	<b>(9)</b>
<b>Analysis of financing and reconciliation to the net cash requirement</b>			
Net financing from Welsh Assembly		18,653	14,254
Increase in cash	11	(148)	-
<b>Net cash requirement</b>		<b>18,505</b>	<b>14,254</b>

Amount of grant actually issued to support the net financing requirement = £18,653,000.00.

The notes on pages 40 to 59 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 expenditure £000	Income £000	Net expenditure £000	Gross expenditure £000	Income £000	Net expenditure £000
<b>Objectives</b>						
Support community development	5,554	(427)	5,127	1,400	(8)	1,392
Create more and better woodlands in Wales, promoting high quality woodland management	8,334	(256)	8,078	8,520	(335)	8,185
Develop Wales as a world-class location for forest industries	9,603	(598)	9,005	9,232	(17)	9,215
Produce a first quality sustainable environment	1,912	(205)	1,707	2,732	(384)	2,348
Promote tourism, recreation and health	4,983	(222)	4,761	3,482	(84)	3,398
<b>Net Operating Costs</b>	<b>30,386</b>	<b>(1,708)</b>	<b>28,678</b>	<b>25,366</b>	<b>(828)</b>	<b>24,538</b>

See note 16.

The notes on pages 40 to 59 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 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 Wales. 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 Wales accounts are published separately in the Forestry Commission annual report and accounts for Wales with the net funding and net worth of FE in Wales reflected in these accounts.

### c. Tangible Fixed Assets

Legal ownership of all land and buildings is vested in the National Assembly 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.

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

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

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 Wales 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.

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

#### 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 Wales and Forest Enterprise in Wales, 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 Welsh Assembly. 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 GB basis with any VAT due to or from HM Customs and Excise at the year-end included in the Forestry Commission in England/GB 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 FRS 3.

##### 1. 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.

##### 2. Provision for liabilities and charges/creditors

The provision for liabilities and charges relates solely to early retirement compensation payments. In previous years the amounts falling due within one year were disclosed in the accounts within creditors and the amounts falling due after more than one year within provisions for liabilities and charges. In accordance with FRS 12 and the RAM the whole amount of the early retirement compensation payments has been included within provisions for liabilities and charges and the prior year figures have also been adjusted.

## 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 Wales employed an average of 55 (42 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 are as follows:

	2002-03	2001-02
	£000	£000
<b>Forestry Commission in Wales</b>		
Wages and salaries	1,412	1,082
Social security costs	97	75
Other pension costs	188	154
<b>Total</b>	<b>1,697</b>	<b>1,311</b>

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](http://www.civilservice-pensions.gov.uk))

For 2002-03, employers' contributions of £188,000 were payable to the PCSPS (£49,000 in 2002-03) 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 £50,000.

## b. Board of Commissioners

The salary and pension entitlements of the Board of Commissioners, excluding the Forest Enterprise Chief Executive whose remuneration is in the FE accounts, were as follows:

	Age	Salary	Real increase in pension at age 60	Total accrued pension at age 60 at 31 March 2003	Benefits in kind	Employer contribution to partnership pension account including risk benefit cover (note (d))
	Years	£000	£000	£000	£	£
<b>2002-03</b>						
<b>Chairman</b>						
Rt Hon Lord Clark of Windermere	63	45-50	N/A	N/A	-	-
<b>Executive Commissioners</b>						
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	-
<b>Non-Executive Commissioners</b>						
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	-	-
<b>2001-02</b>						
<b>Chairman</b>						
Sir Peter Hutchison	66	30-35	N/A	N/A	-	-
Rt Hon Lord Clark of Windermere	62	5-10	N/A	N/A	-	-
<b>Executive Commissioners</b>						
David Bills CBE	54	115-120	0.0-2.5	5-10	-	-
Duncan Macniven TD	51	75-80	0.0-2.5	25-30	-	-
<b>Non-Executive Commissioners</b>						
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 of the Forestry Commission, excluding those who serve on the Board of Commissioners, were as follows:

		Age	Salary	Real increase in pension at age 60	Total accrued pension at age 60 at 31 March 2003	Benefits in kind	Employer contribution to partnership pension account including risk benefit cover (note (d))
	Years	£000	£000	£000	£	£	
<b>2002-03</b>							
<b>Senior GB staff</b>							
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	-	-
Peter Freer-Smith (from 30 May 2002)	a	47	60-65	0.0-2.5	10-15	£800	-
<b>Chief Conservator Wales</b>							
Simon Hewitt	a	55	55-60	0.0-2.5	15-20	-	-
<b>2001-02</b>							
<b>Senior GB staff</b>							
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	-	-
<b>Chief Conservator Wales</b>							
Simon Hewitt		54	50-55	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

## Salary

'Salary' includes gross salary and performance bonuses.

## Pension

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

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	147	172
Other expenditure	1,251	895
Other income	(1,059)	(63)
<b>Sub-total</b>	<b>339</b>	<b>1,004</b>
Non-cash costs		
Cost of capital	6	9
Depreciation	15	23
Loss on sale of assets	-	(1)
<b>Sub-total</b>	<b>21</b>	<b>31</b>
<b>Total</b>	<b>360</b>	<b>1,035</b>

Other expenses included auditor's remuneration of £14,000 for audit work.

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	4,944	2,573
Publications and other expenditure	1,000	517
Planting grant co-financing from EU	(649)	(765)
Sundry income	-	-
<b>Sub-total</b>	<b>5,295</b>	<b>2,325</b>
Forest Enterprise funding	21,326	19,867
	<b>26,621</b>	<b>22,192</b>

Forest Enterprise in Wales incurred a deficit on its income and expenditure account of £21,326,000 (£19,867,000 in 2001-02). It received cash funding of £11,500,000 (£9,283,000 in 2001-02) from the Forestry Commission and the difference is shown under other adjustments in Schedule 1. The difference comprises:

	2002-03	2001-02
	£000	£000
<b>Capital</b>		
Net capital	(223)	(635)
<b>Accruals adjustments</b>		
Cost of capital	9,154	9,804
Non cash items	655	629
Changes in working capital, including cash	(98)	728
Use of provision	338	58
<b>Adjustment of FE deficit to financing</b>	<b>9,826</b>	<b>10,584</b>

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

	2002-03	2001-02
	£000	£000
<b>Net operating cost for the year</b>	<b>28,678</b>	<b>24,538</b>
Remove non-supply expenditure	-	-
Add non-supply income including CFERs	-	-
Add net deficit on revaluations	-	-
<b>Net resource outturn</b>	<b>28,678</b>	<b>24,538</b>

## 6. Tangible Fixed Assets

	<b>Machinery Plant &amp; Equipment</b>	<b>Total</b>
	£000	£000
<b>Cost or valuation:</b>		
At 1 April 2002	259	259
Additions	14	14
Transfers	19	19
Disposals	(2)	(2)
Revaluation to current prices	(1)	(1)
<b>At 31 March 2003</b>	<b>289</b>	<b>289</b>
<b>Depreciation:</b>		
At 1 April 2002	222	222
Provided during year	15	15
Transfers	19	19
Disposals	(2)	(2)
Revaluation to current prices	-	-
<b>At 31 March 2003</b>	<b>254</b>	<b>254</b>
<b>Net Book Value at:</b>		
<b>31 March 2003</b>	<b>35</b>	<b>35</b>
<b>1 April 2002</b>	<b>37</b>	<b>37</b>

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

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 Wales is a public corporation for national accounting and as such is outside the departmental boundary for resource accounting. Its net book value of £144,819,000 (£160,300,000 for 2001-02) is shown as an investment in the balance sheet of the Forestry Commission in Wales.

## 8. Movements in working capital other than cash

	<b>2002-03</b>	<b>2001-02</b>
	£000	£000
Decrease / (Increase) in Stocks	(1)	7
Decrease / (Increase) in Debtors	4	(411)
(Decrease) / Increase in Creditors:		
Amounts falling due within one year	302	96
<b>Movements in working capital other than cash</b>	<b>305</b>	<b>(308)</b>

## 9. Stocks and Work in Progress

	<b>2002-03</b>	<b>2001-02</b>
	£000	£000
Stocks (publications)	1	-
<b>Total</b>	<b>1</b>	<b>-</b>

## 10. Debtors

	Restated	
	2002-03	2001-02
	£000	£000
<b>Amounts falling due within one year:</b>		
Trade debtors	423	467
Other debtors	7	1
Prepayments	15	-
	<b>445</b>	<b>468</b>
<b>Amounts falling due after more than one year:</b>		
Other debtors	<b>48</b>	<b>29</b>
<b>Total</b>	<b>493</b>	<b>497</b>

## 11. Cash at Bank and in Hand

	Restated	
	2002-03	2001-02
	£000	£000
Balance with Office of Paymaster General	219	71
Cash at commercial banks and cash in hand	-	-
<b>Total</b>	<b>219</b>	<b>71</b>
Amounts issued from the Welsh Assembly for supply but not spent at 31 March 2003	219	71

## 12. Creditors

	Restated	
	2002-03	2001-02
	£000	£000
<b>Amounts falling due within one year:</b>		
Trade creditors	458	186
Other creditors	30	-
Amounts issued from the Welsh Assembly for supply but not spent at 31 March 2002	71	71
Amounts issued from the Welsh Assembly for supply but not spent at 31 March 2003	148	-
<b>Total</b>	<b>707</b>	<b>257</b>

## 13. Provision for liabilities and charges (Early retirement compensation payments)

	Restated	
	2002-03	2001-02
	£000	£000
<b>Compensation payments:</b>		
Balance at 1 April 2002	62	122
Provided in the year	-	4
Utilised in the year	(12)	(64)
Unwinding of discount	30	-
<b>Balance at 31 March 2003</b>	<b>80</b>	<b>62</b>

The provision for liabilities and charges relates solely to early retirement compensation payments. 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.

## 14. Reconciliation of net operating cost to changes in general fund

	2002-03	2001-02
	£000	£000
Net operating cost for the year (Schedule 2)	(28,678)	(24,538)
Net Parliamentary funding	18,653	14,325
Amount issued from the Welsh Assembly for supply but not spent at 31 March 2002	71	-
	<u>(9,954)</u>	<u>(10,213)</u>
Adjustment for consolidated FE totals (Note 4)	9,826	10,584
	<u>(128)</u>	<u>371</u>
Notional cost of capital	6	9
Transfer of fixed assets from/to other forestry bodies	-	(66)
Non-cash inter-country transfers	17	12
Amounts issued from the Welsh Assembly for supply but not spent	(219)	(71)
	<u>(324)</u>	<u>255</u>
In year movement in FE general fund	1,326	(1,105)
<b>Net increase/(decrease) in General Fund</b>	<b>1002</b>	<b>(850)</b>
General fund as at 31 March 2002	116,103	116,953
<b>General fund as at 31 March 2003 (Schedule 3)</b>	<b>117,105</b>	<b>116,103</b>

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 £17,000.

## 15. Revaluation Reserve

	2002-03	2001-02
	£000	£000
Balance at 1 April 2002	44,483	49,593
FC revaluation surplus/(deficit) for the year	(1)	1
In year movement in FE revaluation reserve	(16,807)	(5,111)
<b>Balance at 31 March 2003</b>	<b>27,675</b>	<b>44,483</b>

## 16. Schedule 5

Expenditure in Schedule 5 comprises the direct costs incurred by the Forestry Commission in Wales' 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.
Support community development	11	2
Create more and better woodlands in Wales, promoting high quality woodland management	16	13
Develop Wales as a world-class location for forest industries	14	17
Produce a first-quality sustainable environment	4	4
Promote tourism, recreation and health	10	6
<b>Total</b>	<b>55</b>	<b>42</b>

## 17. Capital Commitments

There were no capital commitments at 31 March 2003.

## 18. 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
<b>Building leases expiring within:</b>		
One year	-	-
Two to five years	-	-
More than five years	58	30
<b>Total</b>	<b>58</b>	<b>30</b>

## 19. Other financial commitments

Following approval of a management plan for planting proposals, the Forestry Commission undertakes to pay planting grants in three instalments. The Forestry Commission was committed under signed plans to the payment of future instalments of planting and replanting grants amounting to £0.45 million as at 31 March 2003 (£3.3 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 £2.1 million at 31 March 2003 (£3.2 million in 2001-02). Applications for planting and replanting grants, awaiting approval at 31 March 2003, amounted to £3.2 million (Enil in 2001-02).

## 20. 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 (Enil as at 31 March 2002).

## 21. Losses statement

Losses totalled £147,000 from 47 cases (£53,000 from 124 cases in 2001-02).

Special payments totalled £120,000 from 16 cases (£61,000 from 15 cases in 2001-02).

## 22. Related Party Transactions

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

In addition, the Forestry Commission has had various material transactions with other government departments and other central government bodies. The main entities within government with which the Forestry Commission has had dealings are H M Treasury, Welsh Assembly, Scottish Executive, UK Co-ordinating Body, the Paymaster General's Office, Customs and Excise, the Inland Revenue, 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 & 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 Enil.

## 23. Financial Instruments

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

### **Liquidity risk**

The Welsh Assembly makes provision for the use of resources by the Forestry Commission in Wales, 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. The Forestry Commission in Wales is not, therefore, exposed to significant liquidity risks.

### **Interest-rate risk**

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

### **Foreign currency risk**

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

### **Fair Values**

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

## The Forestry Commission in Wales

Accounts direction given by the treasury in accordance with paragraph 5 of schedule 7 to the Government of Wales Act 1998

The Forestry Commission shall prepare resource accounts for the year ended 31 March 2000 and subsequent financial years in respect of its activities in Wales in compliance with the accounting principles and disclosure requirements of the HM Treasury Resource Accounting Manual ("the Resource Accounting Manual") which is in force for that financial year.

The accounts shall be prepared so as to give a true and fair view of the state of affairs of the body as at 31 March of the financial year to which it applies, and the net resource outturn, resources applied to objectives, recognised gains and losses and cash flows for the financial year then ended.

Compliance with the requirements of the Resource Accounting Manual will, in all but exceptional circumstances, be necessary for the accounts to give a true and fair view. If, in these exceptional circumstances, compliance with the requirements of the Resource Accounting Manual is inconsistent with the requirement to give a true and fair view the requirements of the Resource Accounting Manual should be departed from only to the extent necessary to give a true and fair view. In such cases, informed and unbiased judgement should be used to devise an appropriate alternative treatment, which should be consistent both with the economic characteristics of the circumstances concerned and the spirit of the Resource Accounting Manual. Any material departure from the Resource Accounting Manual should be discussed in the first instance with the Treasury.

This direction supersedes that given to the Forestry Commission dated 26 November 1993.

B Glicksman

**Treasury Officer of Accounts**

25 October 2000

# Forest Enterprise in Wales

Accounts  
for the year ended 31 March 2003



# Contents

Foreword	63
Statement of Forestry Commission's and Chief Executive's Responsibilities	67
Statement on Internal Control	68
The Certificate and Report of the Auditor General for Wales	70
Income and Expenditure Account	72
Statement of Total Recognised Gains and Losses	73
Balance Sheet	74
Cash Flow Statement	75
Notes to the Accounts	76
Accounts Direction	91

# Foreword

## 1. Accounts Direction

The accounts for Forest Enterprise in Wales have been prepared under a direction given by the Treasury in accordance with Section 97(1) of the Government of Wales Act 1998. 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.

Its status 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 Wales by the Forestry Commissioners and achievement against those targets are shown in note 90 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 a number 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.

Work continued on developing tourism, recreation and health initiatives, including a range of partnership projects.

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

#### 5. Results for the Year

Forest Enterprise in Wales incurred a net deficit on its Income and Expenditure Account of £21,326,000 compared to £19,867,000 in 2001-02. A comparison of income and expenditure with the previous year shows that:

- The operating deficit reduced by £201,000. Operating income increased by £357,000, mainly from improved Forest Holidays income and income from work for the Welsh Highways Department. Operating expenditure increased by £156,000 which included revaluation reserve adjustments amounting to £33,000 written to the income and expenditure account. Further details are given in Note 8 of the Foreword and Notes 1B and 13 to the Accounts.
- Net spending on recreation, conservation and heritage increased by £2,436,000 to achieve additional initiatives supported by the National Assembly for Wales and funded through various sources of sponsorship and grant-in-aid. This included projects for developing tourism, recreation, health, community consultation and woodland education.
- A deficit of £30,000 on property sales compared to a deficit last year of £156,000.
- Cost of capital reduced by £650,000, 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 £11,500,000 compared to £9,283,000 in 2001-02. Net capital expenditure reduced by £403,000 with fewer purchases of vehicles and machinery and a reduced programme of property sales.

#### 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 the Assembly's woodlands will be managed by the Forest Management Agency of the Forestry Commission in Wales. During this transitional year the Forestry Commission has been asked to review the status of the Agency and advise the Minister as to the future structure of the Forestry Commission in Wales.

Difficult trading conditions in the timber market are expected to continue into 2003-04.

## **8. Fixed Assets**

The forest estate was subject to a full professional revaluation as at 31 March 2003 by a country valuation panel comprising John Clegg and Co., Raymond-Barker and Co. and professionally qualified land agents employed by the Forestry Commission. Its current existing use value of £131,607,000 has fallen by 40% since the previous revaluation in 1998 which reflects the significant fall in timber prices during the same five year period. £81,903,000 of the adjustment, including in year additions, disposals and transfers, was accounted for annually from 1998 using interim professional opinions. A final in year adjustment of £15,256,000, including additions and disposals, is included in these accounts. A total of £26,610,000 remains in the revaluation reserve before any further reduction in the value of the forest estate would have to be charged direct to the income and expenditure account.

246 hectares of non-forest land were acquired during the year. Non-forest land showed a small upward revaluation of £310,000 based on the unequipped agricultural land index provided by the District Valuer.

Additions to dwellings and other buildings amounted to £81,000. The assets were revalued upwards by £370,000 using an index provided by the District Valuer.

Forest Holidays land and buildings increased in value by £13,000 on revaluation by Barrs and Co. of Leeds.

Purchases of forestry vehicles, machinery and equipment (VME) amounted to £319,000 compared with net disposals and transfers of £152,000. Asset values increased by £97,000 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 £145,000. OME was revalued using an index provided by the Office of 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.

## **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 & Communications
Peter Weston	Acting Head of Forest Planning

## 14. Auditors

These accounts are audited by the Auditor General for Wales.

R McIntosh  
Chief Executive and Agency Accounting Officer  
17 November 2003

## Statement of Forestry Commission's and Chief Executive's responsibilities

1. Under Section 97(1) of The Government of Wales Act 1998 the Treasury has directed the Forestry Commission to prepare a statement of accounts for Forest Enterprise in Wales 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 Wales 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;
- prepare the financial statements on the going concern basis, unless it is inappropriate to assume that Forest Enterprise will continue in operation.

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

## Statement on Internal Control

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

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 Treasury guidance.

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 Accounting 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.
  - The Forestry Commission has an Internal Audit Unit, which operates to the Government Internal Audit Standards Manual. It submits regular reports which include the Head of Internal Audit's independent opinion on the adequacy and effectiveness of the Agency's system of internal control together with recommendations for improvement.
  - 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 Accounting Officer  
17 November 2003

# The Certificate and Report of the Auditor General for Wales to the Members of the National Assembly for Wales

I certify that I have audited the financial statements on pages 72 to 90 under paragraph 6 of Schedule 7 to the Government of Wales Act 1998. These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and stock and the accounting policies set out on pages 76 to 79.

## **Respective responsibilities of the Agency, Chief Executive and Auditor**

As described on page 67, the Agency and Chief Executive are responsible for the preparation of the financial statements in accordance with the Government of Wales Act 1998 and Treasury directions made thereunder and for ensuring the regularity of financial transactions. The Agency and Chief Executive are also responsible for the preparation of other contents of the Annual Report. My responsibilities, as independent auditor, are established by statute and guided by the Auditing Practices Board and the auditing profession's ethical guidance.

I report my opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Government of Wales Act 1998 and Treasury directions made thereunder and whether in all material respects the expenditure and income have been applied to the purposes intended by the National Assembly for Wales and the financial transactions conform to the authorities which govern them. I also report if, in my opinion, the Foreword is not consistent with the financial statements, if the Agency has not kept proper accounting records or if I have not received all the information and explanations I require for my audit.

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial

statements. I consider the implications for my certificate if I become aware of any apparent misstatements or material inconsistencies with the financial statements.

I review whether the statement on page 68 reflects the Agency's compliance with Treasury's guidance 'Corporate Governance: Statement on Internal Control'. I report if it does not meet the requirements specified by Treasury or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements.

## **Basis of audit opinion**

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

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

## **Opinion**

In my opinion:

- the financial statements give a true and fair view of the state of affairs of Forest Enterprise in Wales 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 Government of Wales Act 1998 and directions made thereunder by Treasury; and
- in all material respects the expenditure and income have been applied to the purposes intended by the National Assembly for Wales and the financial transactions conform to the authorities which govern them.

I have no observations to make on these financial statements.

John Bourn  
Auditor General for Wales  
National Assembly for Wales  
Cardiff Bay  
Cardiff  
CF99 1NA

11 December 2003

## Forest Enterprise in Wales

### Income and Expenditure Account for the Year Ended 31 March 2003

		<b>2002-03</b>	<b>2001-02</b>
	Note	£000	£000
<b>Operating Income</b>			
Sales of Timber		15,882	15,831
Forest Protection and Maintenance		103	32
Management and Development of Estate	2b	3,065	2,830
		<u>19,050</u>	<u>18,693</u>
<b>Operating Expenditure</b>			
Forest Planning		2,123	2,305
Harvesting and Haulage of Timber		10,730	10,337
Forest Roads		1,886	1,674
Forest Protection and Maintenance		5,530	5,306
Management and Development of Estate	2b	5,071	5,562
		<u>25,340</u>	<u>25,184</u>
<b>Operating Deficit</b>		(6,290)	(6,491)
<b>Recreation, Conservation &amp; Heritage</b>			
Income		1,542	952
Expenditure		7,394	4,368
		<u>(5,852)</u>	<u>(3,416)</u>
<b>Operating Deficit Net of R,C &amp; H</b>		(12,142)	(9,907)
Surplus on sale of properties	4	(30)	(156)
Deficit		<u>(12,172)</u>	<u>(10,063)</u>
Notional cost of capital	5	(9,154)	(9,804)
<b>Net Deficit for the Year</b>		<u>(21,326)</u>	<u>(19,867)</u>
Transferred to General Fund		<u>(21,326)</u>	<u>(19,867)</u>

There have been no acquisitions and discontinued operations during the year

The notes on pages 76 to 90 form part of these accounts

## Forest Enterprise in Wales

### Statement of Total Recognised Gains and Losses for the Year Ended 31 March 2003

		<b>2002-03</b>	<b>2001-02</b>
	Note	£000	£000
Net deficit for the year		(21,326)	(19,867)
Realised revaluation surplus		2,096	-
Revaluation surplus/(deficit) for the year	13	(14,711)	(5,111)
<b>Total recognised gains and losses for the year</b>		<b>(33,941)</b>	<b>(24,978)</b>

The notes on pages 76 to 90 form part of these accounts

# Forest Enterprise in Wales

## Balance Sheet

as at 31 March 2003

		2002-03	2001-02
	Note	£000	£000
<b>Fixed Assets</b>			
Tangible assets	6	142,058	157,086
Intangible assets		-	-
		<b>142,058</b>	157,086
Debtors falling due after more than one year	8	19	22
<b>Current Assets</b>			
Stocks	7	1,816	1,703
Debtors	8	4,559	4,610
Cash at banks and in hand	9	-	-
		<b>6,375</b>	6,313
<b>Creditors</b> (amounts falling due within one year)	10	(2,796)	(2,983)
<b>Net Current Assets</b>		<b>3,579</b>	3,330
<b>Creditors</b> (amounts falling due after more than one year)	10	(361)	-
Provision for Liabilities and Charges	11	(476)	(138)
		(837)	(138)
<b>Total Assets less Liabilities</b>		<b>144,819</b>	160,300
<b>Capital and Reserves</b>			
General fund	12	117,144	115,818
Revaluation reserve	13	27,675	44,482
<b>Total Capital and Reserves</b>		<b>144,819</b>	160,300

The notes on pages 76 to 90 form part of these accounts

R McIntosh  
Chief Executive and Agency Accounting Officer  
17 November 2003

# Forest Enterprise in Wales

## Cash Flow Statement

### for the Year Ended 31 March 2003

		2002-03	2001-02
	Note	£000	£000
<b>Reconciliation of Net Deficit to Operating Cash Flows</b>			
Net deficit for the year		(21,326)	(19,867)
Notional cost of capital		9,154	9,804
Depreciation charges		746	769
Revaluation reserve adjustments	13	33	-
(Profit)/loss on sale of properties	4	(38)	55
(Profit)/loss on sale of other tangible fixed assets		13	132
Non-cash inter-country transfers	12	(99)	(327)
(Increase)/decrease in stocks		(113)	(283)
(Increase)/decrease in debtors		54	215
Increase/(decrease) in creditors		(39)	795
Use of provisions		338	58
<b>Net cash outflow from operating activities</b>		<b>(11,277)</b>	<b>(8,649)</b>
<b>Cash Flow Statement</b>			
Net cash outflow from operating activities		(11,277)	(8,649)
<b>Capital</b>			
New planting		-	(5)
Payments to acquire tangible fixed assets		(648)	(1,234)
Receipts from sale of properties	4	286	604
Receipts from sale of other tangible fixed assets		139	-
<b>Net Capital</b>		<b>(223)</b>	<b>(635)</b>
<b>Net Cash Outflow after Capital</b>		<b>(11,500)</b>	<b>(9,284)</b>
<b>Financing</b>			
Deficit funded by Forestry Commission		11,500	9,283
Increase/(decrease) in cash		-	(1)
<b>Reconciliation of Net Cash Flow to movement in Net Funds</b>			
Increase/(decrease) in cash		-	(1)
Net funds at 1 April 2002		-	1
<b>Net funds at 31 March 2003</b>		<b>-</b>	<b>-</b>

The notes on pages 76 to 90 form part of these accounts

# Notes to the Accounts

## Note 1 Accounting Policies

### a. Accounting Convention

In accordance with Section 97(1) of The Government of Wales Act 1998, the accounts are drawn up in a format agreed and approved by the Treasury. The accounts are prepared under the historical cost convention modified by the inclusion of the valuation of assets. Without limiting the information given, the accounts meet the requirements of the Companies Acts and of the Financial Reporting Standards where relevant.

### b. Tangible Fixed Assets

Legal ownership of all land and buildings is vested in the National Assembly 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 existed, 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 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 five-year revaluation. This policy will continue to operate during the period up to the next full revaluation as at 31 March 2008.

#### **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 the 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.

### **Fixtures 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 each class of asset to comply fully with FRS 11 and FRS 15 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 FRS 11 and FRS 15. 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 machinery and 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:-

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

Cost of production and collection comprises labour and attributable administrative expenses based on the normal level of activity. Net realisable value is based on estimated selling prices,

less further costs expected to be incurred to completion and disposal.

## F. Provision for bad and doubtful debts

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

## G. Research and Development

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

## H. Capital Charge

A notional charge, reflecting the cost of capital used by Forest Enterprise in Wales, 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. Leases

Where substantially all risks and rewards of ownership of a leased asset are borne by the Forestry Commission, the asset is recorded as a tangible fixed asset and a debt is recorded to the lessor of the minimum lease payments discounted by the Treasury discount rate of 6% in real terms. The interest element of the finance lease payment is charged to the Income and Expenditure Account over the period of the lease at a constant rate in relation to the balance outstanding. 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.

## Note 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	746	769
Hire of plant and equipment	493	456
<b>Operating lease rentals:</b>		
Land and buildings	21	21
Other	659	584
Auditors' remuneration – audit work	28	24

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.

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 be 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 shared 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 internal 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:

			2002-03	2001-02
	Income	Expenditure	Net	Net
	£000	£000	£000	£000
Forest Holidays	193	147	46	(54)
Estate Management	417	2,461	(2,044)	(3,080)
Lake Vyrnwy	4	-	4	48
Revaluation reserve adjustments	-	33	(33)	-
Other	2,451	2,430	21	354
<b>Totals</b>	<b>3,065</b>	<b>5,071</b>	<b>(2,006)</b>	<b>(2,732)</b>

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 expenditure to guard against further landslips on former coal tips on Forestry Commission land and 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 Lake Vyrnwy scheme in Wales made a minimal profit in respect of Forest Enterprise's equal share in the surplus/deficit of the joint management scheme with Severn Trent Water.

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 the sale of Christmas trees.

## Note 3 Staff Numbers and Costs

### a. Employees and Costs

The average number of whole time equivalent persons employed in Forest Enterprise in Wales during the year was 291 (270 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	7,538	6,875
Social Security Costs	483	468
Employers Superannuation Costs	898	958
	<u>8,919</u>	<u>8,301</u>

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](http://www.civilservice-pensions.gov.uk)).

For 2002-03, employers' contributions of £898,000 were payable to the PCSPS (£306,000 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 revaluation 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 24 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 £267,000.

## b. Management Board

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

		Age	Salary	Real increase in pension at age 60	Total accrued pension at age 60 at 31 March 2003	Benefits in kind	Employer contribution to partnership pension account including risk benefit cover (note (d))
		Years	£000	£000	£000	£	£
<b>2002-03</b>							
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	-
<b>2001-02</b>							
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

### 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.

## Note 4 Sale of Properties

	2002-03	2001-02
	£000	£000
Income	286	604
Book value	248	659
	<b>38</b>	(55)
<b>Disposal costs</b>		
External costs	11	57
Administration expenses	57	44
	<b>68</b>	101
Surplus on sale of properties	<b>(30)</b>	(156)

## Note 5 Notional Cost of Capital

Notional cost of capital based on 6% of average total assets less liabilities employed in 2002-03 amounted to £9,154,000.

## Note 6 Tangible Fixed Assets

	Forest Estate	Land	Forest Holidays Land	Dwellings and Other Buildings	Forest Holidays Buildings	VME	OME	Total
	£000	£000	£000	£000	£000	£000	£000	£000
<b>Valuation:</b>								
At 1 April 2002	146,863	2,709	600	4,095	252	7,576	1,230	163,325
Additions	316	-	-	81	-	319	145	861
Transfers	-	-	-	-	-	(43)	20	(23)
Disposals	(139)	(2)	-	(14)	(94)	(1,306)	(7)	(1,562)
Revaluation	(15,433)	310	-	370	13	97	(17)	(14,660)
<b>At 31 March 2003</b>	<b>131,607</b>	<b>3,017</b>	<b>600</b>	<b>4,532</b>	<b>171</b>	<b>6,643</b>	<b>1,371</b>	<b>147,941</b>
<b>Depreciation:</b>								
At 1 April 2002	-	-	-	-	13	5,231	995	6,239
Provided during year	-	-	-	184	14	468	80	746
Transfers	-	-	-	-	-	(43)	19	(24)
Disposals	-	-	-	(1)	-	(1,154)	(7)	(1,162)
Revaluation	-	-	-	-	-	90	(6)	84
<b>At 31 March 2003</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>183</b>	<b>27</b>	<b>4,592</b>	<b>1,081</b>	<b>5,883</b>
<b>At 31 March 2003</b>	<b>131,607</b>	<b>3,017</b>	<b>600</b>	<b>4,349</b>	<b>144</b>	<b>2,051</b>	<b>290</b>	<b>142,058</b>
At 1 April 2002	146,863	2,709	600	4,095	239	2,345	235	157,086

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 country valuation panels comprising John Clegg & Co. Chartered Surveyors, Raymond-Barker and Co. 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, dwellings and other 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.

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 restated to current value 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 £213,000 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.

## Note 7 Stocks

	2002-03	2001-02
	£000	£000
Timber	904	794
Plants and seed	684	637
Consumable materials, supplies and livestock	228	272
	<b>1,816</b>	<b>1,703</b>

## Note 8 Debtors

	2002-03	2001-02
	£000	£000
Amounts falling due within one year:		
Trade debtors	4,021	4,202
Other debtors	114	74
Prepayments	424	334
	<b>4,559</b>	<b>4,610</b>
<b>Amounts falling due after more than one year:</b>		
Other debtors	19	22
	<b>4,578</b>	<b>4,632</b>

## 9 Cash at Banks and In Hand

	2002-03	2001-02
	£000	£000
Cash in hand	-	-
	<b>-</b>	<b>-</b>

## Note 10 Creditors

	2002-03	2001-02
	£000	£000
<b>Amounts falling due within one year:</b>		
Trade creditors	2,423	2,432
Other creditors	128	305
Payments received on account	245	246
	<b>2,796</b>	<b>2,983</b>
<b>Amounts falling due after more than one year:</b>		
Finance leases	361	-
	<b>3,157</b>	<b>2,983</b>

## Note 11 Provision for Liabilities and Charges

	Early departure costs	Public legal claims	Other legal claims	Total
	£000	£000	£000	£000
Balance at 1 April 2002	138	-	-	138
Provided in the year	39	225	122	386
Provisions not required written back	-	-	-	-
Provisions utilised in the year	(57)	-	-	(57)
Unwinding of discount	9	-	-	9
<b>Balance at 31 March 2003</b>	<b>129</b>	<b>225</b>	<b>122</b>	<b>476</b>

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.

## Note 12 General Fund

	2002-03	2001-02
	£000	£000
Balance brought forward	115,818	116,923
<b>Movement in year:</b>		
Net deficit for the year	(21,326)	(19,867)
Notional cost of capital	9,154	9,804
Cash deficit funded by Forestry Commission	11,500	9,283
Transfers of fixed assets from/to other Forestry Bodies	1	2
Realised revaluation surplus	2,096	-
Non-cash inter-country transfers	(99)	(327)
	<b>1,326</b>	<b>(1,105)</b>
Balance carried forward	<b>117,144</b>	<b>115,818</b>

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 £99,000.

## Note 13 Revaluation Reserve

	2002-03	2001-02
	£000	£000
Cumulative revaluation reserve brought forward	44,482	49,593
<b>Revaluation deficit for the year ended 31 March 2003:</b>		
Forest Estate	(15,433)	(5,086)
Land	310	(588)
Forest Holidays land	-	50
Forest Holidays buildings	13	579
Dwellings and other buildings	370	3
VME	7	(69)
OME	(11)	-
	<b>(14,744)</b>	<b>(5,111)</b>
Realised revaluation surplus	(2,096)	-
Revaluation reserve adjustments to income and expenditure account	33	-
Balance carried forward	<b>27,675</b>	<b>44,482</b>

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

	2002-03	2001-02
	£000	£000
Other land and buildings	(1,564)	-
Forest Holidays buildings	(92)	-
VME	(382)	-
OME	(58)	-
	<b>(2,096)</b>	<b>-</b>

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	33	-
	<b>33</b>	<b>-</b>

## Note 14 Capital commitments

There were no capital commitments as at 31 March 2003.

## Note 15 Commitments under leases

### Operating leases

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

	2002-03	2001-02
	£000	£000
Land and building leases expiring within:		
One year	-	-
Two to five years	-	-
More than five years	-	12
	<b>-</b>	<b>12</b>

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

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

	2002-03	2001-02
	£000	£000
<b>Other leases expiring within:</b>		
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>

#### Finance leases

Obligations under finance leases fall due as follows:

	2002-03	2001-02
	£000	£000
Within one year	33	-
Between two and five years	115	-
In more than five years	213	-
	<u>361</u>	<u>-</u>

## Note 16 Other financial commitments

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

## Note 17 Contingent Liabilities

There were no contingent liabilities at 31 March 2003 (£18,000 at 31 March 2002).

## Note 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 & 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.

## Note 19 Losses statement

Losses totalled £147,000 from 47 cases (£40,000 from 123 cases in 2001-02).

Special payments totalled £120,000 from 16 cases (£61,000 from 15 cases in 2001-02).

## Note 20 Financial Instruments

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

### Liquidity risk

The UK Government makes provision for the use of resources by Forest Enterprise in Wales, 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 Wales is not therefore exposed to significant liquidity risks.

### Interest-rate risk

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

### Foreign currency risk

Forest Enterprise in Wales 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.

## Note 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	6,290	5,200
Cash deficit	11,500	9,800
Gross receipts from sale of properties	286	200

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

## Appendix 1

### Accounts direction given by the treasury in accordance with Section 97(1) of the Government of Wales Act 1998

1. The Forestry Commission shall prepare accounts for Forest Enterprise of its activities in Wales 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 Accounting Officer's responsibilities; and
- (g) a statement on internal control;

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

2. The accounts shall give a true and fair view of the income and expenditure, and cash flows for the financial year, and the state of affairs as at the end of the financial year.

3. Subject to this requirement, the accounts shall be prepared in accordance with:

- (a) generally accepted accounting practice in the United Kingdom (UK GAAP);
- (b) the disclosure and accounting requirements contained in "The Fees and Charges Guide" (in particular those relating to the need for segmental information for services or forms of service provided) and in any other guidance which the Treasury may issue from time to time in respect of accounts which are required to give a true and fair view;
- (c) the accounting and disclosure requirements of "Government

Accounting", as amended or augmented from time to time, insofar as these are appropriate to Forest Enterprise and are in force for the financial year for which the accounts are to be prepared.

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

5. The income and expenditure account and balance sheet shall be prepared under the historical cost convention modified by the inclusion of:

- a. the forest estate at its existing use value;
- b. land and buildings at their existing use value where a market exists, otherwise at depreciated replacement cost;
- c. machinery, plant and equipment at current replacement cost;
- d. commercial recreation assets at their existing use value; and
- e. stocks of seed at the lower of cost or net realisable value, stocks of plants and livestock at net realisable value and stocks of consumable materials at current replacement cost.

6. This direction shall be reproduced as an appendix to the accounts and supersedes that dated 25 October 2000.

David Loweth  
Head of the Central Accountancy Team  
HM Treasury  
21 May 2002

## Schedule 1

### Application of the accounting and disclosure requirements of the Companies Act and Accounting Standards

#### **Companies Act**

1. The disclosure exemptions permitted by the Companies Act shall not apply to Forest Enterprise unless specifically approved by the Treasury.

2. The Companies Act requires certain information to be disclosed in the Directors' Report. To the extent that it is appropriate, the information relating to Forest Enterprise shall be contained in the foreword.

3. The income and expenditure account shall be in a form which discloses the information described in paragraph 2 of Schedule 2, as the recommended formats described in Schedule 4 to the Companies Act are not appropriate for Forest Enterprise.

4. When preparing its balance sheet, Forest Enterprise shall have regard to the balance sheet format 1 prescribed in Schedule 4 to the Companies Act. The balance sheet totals shall be struck at "Total assets less liabilities".

5. Forest Enterprise is not required to provide the historical cost information described in paragraph 33(3) of Schedule 4 to the Companies Act.

6. The foreword and balance sheet shall be signed by the Accounting Officer and dated.

#### **Accounting standards**

7. Forest Enterprise is not required to include a note showing historical cost profits and losses as described in FRS 3.

8. The cash flow statement shall be presented under the indirect method as described in FRS 1.

9. Forest Enterprise shall not adopt the Financial Reporting Standard for Smaller Entities unless specifically approved by the Treasury.

## Schedule 2

### Additional disclosure requirements

#### Foreword

1. The foreword shall, inter alia:
  - (a) state that the accounts have been prepared in accordance with a direction given by the Treasury in accordance with Section 97(1) of the Government of Wales Act 1998;
  - (b) include a brief history of Forest Enterprise and its statutory background.

#### Income and Expenditure Account

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

#### Notes to the Accounts

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

# Appendices



## Appendix 1

### Forestry Commissioners and Senior Staff in Wales for the year ended 31 March 2003

#### Welsh Forestry Commissioners

Gareth Wardell  
Anthony Bosanquet

#### Staff in National Office

Simon Hewitt	Chief Conservator
John Westlake	Implementation Manager
Huw Davies	Policy Officer
Paul Sherrington	External Relations Manager
Peter Garson	Conservator - Operations
Ruth Jenkins	Sustainability and Environment Unit Manager
Paul Finch	European Funding Manager
Clive Davies	Information Officer
Martyn Giles	Assembly Liaison Officer (based in Cathays Park, Cardiff)

#### Staff in Territorial Office and Forest Districts

Bob Farmer	Territorial Director
Ian Shaw	Territorial Land Agent
Chris Edwards	Operations Manager Wales
Derek Stephen	Territorial Management Accountant
Felicity Wills	Territorial Personnel Adviser

#### Forest District Managers

Terry O'Keefe	Coed y Mynydd
Richard Siddons	Coed y Gororau
Dai Jones	Llanymddyfri
Antony Wallis	Coed y Cymoedd

#### Other Cost Centre Managers

John Browne	Manager, Wales Harvesting and Marketing Unit
Karl Lee	Agency Manager
David Cross	Restock Unit Manager
Trefor Owen	Social Unit Team Leader
Sue Ginley	Education Manager
Andy Fryers	Visitor Centres Manager

## Appendix 2

### Statutory and Other Committees Membership as at 31 March 2003

#### **National Committee**

The Committee is appointed under Section 2(3) of the Forestry Act 1967 to, inter alia, undertake any of the functions of the Forestry Commissioners that they may delegate, subject to any restrictions or conditions as they see fit. Current membership of the Committee is:

Mr G L Wardell (Chairman);  
Mr S A J P Bosanquet;  
Mr T A Bruce Jones;  
Dr V M Edwards;  
Professor J Good;  
Mr J D James OBE;  
Mr D Macniven TD;  
Mr A O Raven.

Secretary to the Committee: Mr H L Davies  
The Committee had no meetings during the year

#### **Forestry Commission Advisory Committee for Wales (Regional Advisory Committee)**

The Committee is appointed under Sections 37 and 38 of the Forestry Act 1967; its functions are to:

- Adjudicate in disputed applications for grant aid or felling licences, and in disputes by statutory bodies arising from Forest Enterprise design plans;
- Advise the Commission on the implementation at regional level of national forest strategies;
- Advise on specific topics and issues having regional implications; and
- Inform the Commission on matters of regional or local concern on which the RAC considers it necessary to comment.

The Advisory Committee's views are also sought on a range of issues relating to FC structures, grant schemes and policy implementation. Current membership of the Committee is:

Professor J Good (Chair);  
Mr D G Evans;  
Mr R Lovegrove;  
Mr I Monckton;  
Dr A Gee;  
Mr R Murray;  
Ms S Price;  
Mr J Davies;  
Mr E Harris;  
Professor D Austin;  
Mrs J Webb;

Dr J Taylor. Both Country Commissioners, Mr A Bosanquet and Mr G Wardell also attend Advisory Committee meetings.

Secretary to the Committee: H L Davies  
The Committee met three times during the year.

During the year the Regional Advisory Committee received briefings, and provided advice on: woodland community work; new road planning; wood fuel; CAP reform; carbon sequestration; biomass capital grant schemes; the Freedom of Information Act; the work of the Woodland Forum and urban and derelict land use.

## Appendix 3

### National Assembly Woodland Forum Members

<b>Member</b>	<b>Representing</b>
Mr Paul Raymond Barker	RICS
Mr Tom Bourne	Welsh Development Agency
Mrs Rosie Carmichael	Welsh Local Government Association
Mr Glynn Cook	BASC
Mr James Woodcock	Welsh Timber Forum
Mr Ben Maxted	Tir Coed
Mr Huw Denman	Llanfihangel Rhos y Corn/Pobl y Fforest
Mr Mike Dunn	Assembly Agriculture Department
Mr Bob Farmer	Forest Enterprise Wales
Ms Sue Gittins	Ramblers Association
Professor John Good	FC Advisory Committee for Wales
Mr David Jenkins	Coed Cymru
Ms Linda Jones	Wales Tourist Board
Mr John Lloyd Jones	Countryside Council for Wales
Mr Jerry Langford	Woodland Trust (Coed Cadw)
Mr Harry Lloyd	UKFPA
Ms Wendy Merrett	Environment Agency Wales
Mrs Rhian Nowell-Phillips	Farmers Union of Wales
Mr Tony Prater	RSPB
Professor Colin Price	University of Wales Bangor
Ms Lindsay Roberts	Assembly Planning Department
Mr Ken Shaw	Groundwork Wales
Mr Ian Sheffner	FCA
Ms Celia Thomas	Pembrokeshire Coast National Park
Mr Malcolm Thomas	National Farmers Union Wales
Mr Trevor Thompson	The Royal Forestry Society
Mr Phil Tidey	Small Woods Association
Mr Trevor Trevor	Country Land and Business Association
Mr Richard Turner	CADW
Mr Rod Waterfield	Charcoal and Coppice Sector
Mrs Judith Webb	The Forestry & Timber Association
Mr Hugh Wheeldon	ICF
Mr Peter Wilson	FIDC
Ms Judy Ling Wong OBE	Black Environment Network
Ms Deb Wozencraft	CPRW
Mr Nick Wynne	The National Trust

## Appendix 4

### Woodland Grant Scheme Applicants' Charter

#### PERFORMANCE 2002/3

We operate Charter Standards for Woodland Grant Schemes and for Felling Licence applications. In all cases we aim to acknowledge receipt of applications within 3 working days. For grant applications the aim is to process applications from 'proposals' stage to 'draft contracts' stage within 11 weeks. This includes any consultation with outside bodies but the target excludes the time an application is awaiting input from the applicant. For Felling Licence Applications, we aim to issue a Licence within 10 weeks of receiving an application and this includes the time during which an application is held up awaiting input from an applicant.

The table below sets out performance against Charter targets. When compared to the previous year, the performance differs in several respects.

The number of new WGS applications received doubled giving rise to a 26% increase in the number of WGS contracts issued during the year. However, the proportion of WGS applications processed within the 11 week period declined significantly from 54% in the previous year. The need to improve processing times is recognised as an important requirement in the development of a new grants administration system for introduction in 2005. The number of felling licenses was similar to the previous year but the proportion processed within the 10 week target increased significantly from the 68% in the previous year. The number of claims paid in the year was slightly lower than in the previous year and the % process within 28 days declined from 85% to 79%

The number of claims paid in the year was slightly lower than in the previous year and the proportion processed within 28 days declined from 85% to 79%. The need to process claims more promptly has been addressed by the appointment of Grants and Licences support officers whose role will include the inspection of grant claims.

The implementation of the new GLADE system in 2005 will significantly improve the administration of the woodland grant scheme.

WALES 2002/3	Number	% Processed inTarget time
<b>WGS Applications received</b>	543	
Acknowledged within 3 days	522	96
Processed in under 11 weeks Excluding WAP	244	44
Felling Licence Applications	146	
Acknowledged within 3 days	144	99
Processed in 10 weeks	134	92
<b>Grant Claims</b>	1252	
Paid in under 28 days	992	79

\* Note: A total of 397 Woodland Grant Scheme Contracts were approved during the year.

# Tables



## Table 1

Area of planting by private woodland owners for which grants were paid in the year ended 31 March 2003

### Woodland Grant Scheme

Hectares	ENGLAND		WALES		SCOTLAND		GREAT BRITAIN		
	New Planting	Restocking	Total	New Planting	Restocking	Total	New Planting	Restocking	Total
Conifer	305	336	641	41	527	568	2,963	2,709	5,672
Broadleaved	4,287	629	4,916	288	186	474	3,671	780	4,451
<b>TOTAL</b>	<b>4,592</b>	<b>965</b>	<b>5,557</b>	<b>329</b>	<b>713</b>	<b>1,042</b>	<b>6,634</b>	<b>3,489</b>	<b>10,123</b>
							<b>11,555</b>	<b>5,167</b>	<b>16,722</b>

#### Notes:

1. The figures include new planting grant-aided in association with the Farm Woodland Premium scheme administered by the Agriculture Departments.
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 GB area of new planting includes 8 hectares of Short Rotation Coppice which was grant aided.

## Table 2

Area of Planting by Private Woodland Owners for which Grants were paid in the 20 year period 1 April 1983 to 31 March 2003

Hectares	ENGLAND			WALES			SCOTLAND			GREAT BRITAIN		
	New Planting	Restocking	Total	New Planting	Restocking	Total	New Planting	Restocking	Total	New Planting	Restocking	Total
1984	1,480	1,935	3,415	1,064	113	1,177	14,129	1,019	15,148	16,673	3,067	19,740
1985	976	1,767	2,743	918	122	1,040	14,135	1,177	15,312	16,029	3,066	19,095
1986	984	2,346	3,330	743	434	1,177	17,292	1,559	18,851	19,019	4,339	23,358
1987	1,219	2,644	3,863	708	280	988	17,220	1,547	18,767	19,147	4,471	23,618
1988	1,679	2,718	4,397	945	476	1,421	21,197	1,660	22,857	23,821	4,854	28,675
1989	1,752	2,330	4,082	923	256	1,179	22,433	2,248	24,681	25,108	4,834	29,942
1990	3,366	3,871	7,237	552	270	822	11,488	1,984	13,472	15,406	6,125	21,531
1991	4,363	3,970	8,333	510	296	806	10,563	2,840	13,403	15,436	7,106	22,542
1992	3,966	4,042	8,008	356	579	935	9,825	3,210	13,035	14,147	7,831	21,978
1993	5,052	3,811	8,863	429	654	1,083	9,814	3,609	13,423	15,295	8,074	23,369
1994	6,091	3,700	9,791	626	441	1,067	9,180	4,314	13,494	15,897	8,455	24,352
1995	4,997	2,475	7,472	554	626	1,180	12,577	3,068	15,645	18,128	6,169	24,297
1996	4,338	1,972	6,310	442	620	1,062	10,195	3,169	13,364	14,975	5,761	20,736
1997	4,348	2,027	6,375	411	814	1,225	11,212	3,692	14,904	15,971	6,533	22,504
1998	4,123	1,984	6,107	485	804	1,289	11,304	2,737	14,041	15,912	5,525	21,437
1999	4,875	1,726	6,601	629	802	1,431	10,410	2,958	13,368	15,914	5,486	21,400
2000	5,414	1,414	6,828	744	813	1,557	10,363	3,083	13,446	16,521	5,310	21,831
2001	5,365	1,708	7,073	447	759	1,206	11,627	3,561	15,188	17,439	6,028	23,467
2002	4,324	949	5,273	270	757	1,027	7,880	2,884	10,764	12,474	4,590	17,064
2003	4,592	965	5,557	329	713	1,042	6,634	3,489	10,123	11,555	5,167	16,722

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

## Table 3

Area of Management Grant for which grant was paid in the year ended 31 March 2003

### Woodland Grant Scheme

Hectares	England	Wales	Scotland	Great Britain
Standard MG	100	-	636	736
Special MG	912	-	447	1,359
Annual MG	132,971	7,698	40,149	180,818
Woodland Improvement Grant	7,302	2,690	4,780	14,772
Livestock Exclusion Annual Premium	2,012	793	8,453	11,258
<b>Total</b>	<b>143,297</b>	<b>11,181</b>	<b>54,465</b>	<b>208,943</b>

### Area Approved for Management Grant under the Woodland Grant Scheme

Hectares	England	Wales	Scotland	Great Britain
1993-94				
Conifer	18,246	3,911	41,983	64,140
Broadleaved	39,302	1,879	5,762	46,943
<b>Total</b>	<b>57,548</b>	<b>5,790</b>	<b>47,745</b>	<b>111,083</b>
1994-1995				
Conifer	7,620	1,750	31,293	40,663
Broadleaved	21,749	1,037	8,088	30,874
<b>Total</b>	<b>29,369</b>	<b>2,787</b>	<b>39,381</b>	<b>71,537</b>
1995-1996				
Conifer	4,478	1,164	9,136	14,778
Broadleaved	15,545	1,353	4,322	21,220
<b>Total</b>	<b>20,023</b>	<b>2,517</b>	<b>13,458</b>	<b>35,998</b>
1996-1997				
Conifer	3,257	458	5,103	8,818
Broadleaved	12,679	1,295	4,946	18,920
<b>Total</b>	<b>15,936</b>	<b>1,753</b>	<b>10,049</b>	<b>27,738</b>
1997-1998				
Conifer	5,900	885	5,808	12,593
Broadleaved	18,474	1,189	3,890	23,553
<b>Total</b>	<b>24,374</b>	<b>2,074</b>	<b>9,698</b>	<b>36,146</b>
1998-1999				
Conifer	6,205	820	6,594	13,619
Broadleaved	24,556	1,523	3,552	29,631
<b>Total</b>	<b>30,761</b>	<b>2,343</b>	<b>10,146</b>	<b>43,250</b>
1999-2000				
Conifer	8,563	908	5,396	14,867
Broadleaved	24,893	1,018	4,349	30,260
<b>Total</b>	<b>33,456</b>	<b>1,926</b>	<b>9,745</b>	<b>45,127</b>
2000-2001				
Conifer	4,920	445	6,323	11,688
Broadleaved	18,519	1,437	2,590	22,546
<b>Total</b>	<b>23,439</b>	<b>1,882</b>	<b>8,913</b>	<b>34,234</b>
2001-2002				
Conifer	4,578	493	3,051	8,122
Broadleaved	15,394	963	2,058	18,415
<b>Total</b>	<b>19,972</b>	<b>1,456</b>	<b>5,109</b>	<b>26,537</b>
2002-2003				
Conifer	3,481	506	2,803	6,790
Broadleaved	15,709	809	3,174	19,692
<b>Total</b>	<b>19,190</b>	<b>1,315</b>	<b>5,977</b>	<b>26,482</b>

Note 1: The figures quoted in the 2001-02 ANNUAL Report included Woodland Improvement Grant and Livestock Exclusion Premium. These figures have been revised to show only the Annual Management Grant.

# Maps



# Forestry Commission National and Conservancy Boundaries



# Forestry Enterprise Boundaries



## Addresses of the Main Offices of the Forestry Commission

### Offices in Wales

#### **National Office for Wales**

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

#### **Forest Enterprise Territorial Office for Wales**

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

### Other Offices

#### **Edinburgh**

Silvan House, 231 Corstorphine Road, Edinburgh, EH12 7AT  
Tel 0131 334 0303 Fax 0131 334 3047  
e-mail: [enquiries@forestry.gsi.gov.uk](mailto:enquiries@forestry.gsi.gov.uk)  
website [www.forestry.gov.uk](http://www.forestry.gov.uk)

#### **National Office For England**

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

#### **Forest Enterprise Territorial Office for England**

340 Bristol Business Park, Coldharbour Lane, Bristol, BS16 1EJ  
Tel 0117 906 6000 Fax 0117 931 2859

#### **National Office For Scotland**

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

#### **Forest Enterprise Territorial Office for Scotland (North)**

1 Highlander Way, Inverness Business Park, Inverness, IV2 7GB  
Tel 01463 232811 Fax 01463 243846

#### **Forest Enterprise Territorial Office for Scotland (South)**

55/57 Moffat Road, Dumfries, DG1 1NP  
Tel 01387 272440 Fax 01387 251491

### Forest Research

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

Northern Research Station, Roslin, Midlothian, EH25 9SY  
Tel 0131 445 2176 Fax 0131 445 5124