



Accounts for the year ended 31 March 2004





Contents

Foreword	148
Statement of Forestry Commission's and Chief Executive's Responsibilities	152
Statement on Internal Control	153
The Certificate and Report of the Comptroller and Auditor General to the House of Commons ...	156
Income and Expenditure Account	158
Statement of Total Recognised Gains and Losses	158
Balance Sheet	159
Cash Flow Statement	160
Notes to the Accounts	161



Foreword

1. Basis of Accounts

These accounts are prepared in accordance with a direction given by HM Treasury in pursuance of section 7 of the Government Resources and Accounts Act 2000.

2. Status

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

Forest Research remains part of the Forestry Commission, which is a cross border Government Department responsible for forestry throughout Great Britain. The relationship between Forest Research, the Forestry Commissioners and Forestry Ministers is described in the Framework Document, revised and published in September 2003.

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


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

Two organisational reviews took place during 2002 and 2003 that impact on the Agency's status and operational arrangements.

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

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

The stage two report of the Agency's Quinquennial Review, which addressed the issues on implementing the outcomes of the stage one review and the devolution review, was approved by Ministers and a new Framework Document was put in place in September 2003.



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

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

3. Aims and Objectives

The aim of Forest Research is set out in the Framework Document. It is to support and enhance forestry and its role in sustainable development, by providing high quality research and development in a well-run organisation.

The objectives of Forest Research are listed on page 6 in the Annual Report.

4. Review of Activities

This is Forest Research's seventh year of operation as an Agency. Forest Research produced a net operating surplus of £410,000 on its Income and Expenditure Account, excluding the notional cost of capital. A comparison of income and expenditure with the previous year's results shows that:

- staff costs increased by £469,000 (6.2%)
- other management costs increased by £176,000 including provisions for employer liability claims (9.3%)
- materials and service costs reduced by £98,000 (4.0%)
- income from Forestry Commission customers increased by £353,000 (3.3%)
- income from external customers reduced by £24,000 (1.4%)
- the notional cost of capital reduced by £236,000 in the main due to the reduction in the Government standard interest rate from 6% to 3.5%

The net surplus for the year after cost of capital of £384,000 and depreciation was £26,000, representing a cost recovery rate of 100.2%.

After adjusting the total surplus for items not involving the movement of cash and for capital expenditure, bank account movements and income, the net cash inflow for the year was £763,000, of which £251,000 was transferred to the Forestry Commission, the balance being held in Agency bank accounts.

Additions to fixed assets in the year were £376,000.

5. Financial Objective

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



6. Post Balance Sheet Events

There are no post balance sheet events.

7. Supplier Payment Policy

Forest Research observes the principles of the late payment of commercial debts (interest) Act 1998. Unless otherwise stated in the contract, we aim to pay within 30 days from the receipt of goods and services, or the presentation of a valid invoice, whichever is the later. An analysis for 2003–04 indicates that 99.97% of payments to suppliers, including those made using the Government Procurement Card, were paid within the due date. Arrangements for handling complaints on payment performance are notified to suppliers on orders.

8. Employment Policies

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

9. Management

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

Rt. Hon. Margaret Beckett MP	<i>Secretary of State for the Department for the Environment, Food and Rural Affairs</i>
Elliot Morley MP	<i>Parliamentary Secretary (Commons) for the Department for the Environment, Food and Rural Affairs (to 12 June 2003)</i>
Ben Bradshaw MP	<i>Parliamentary Under Secretary (Commons), Department for the Environment, Food and Rural Affairs (from 13 June 2003)</i>

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

Jim Lynch	<i>Chief Executive (from 1 July 2003)</i>
Peter Freer-Smith	<i>Research Director</i>
Ken Charles	<i>Head of Personnel and Administration</i>
Tony Cornwell	<i>Head of Finance and Planning</i>
Bill Mason	<i>Acting Head, Northern Research Station</i>



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

Remuneration of board members who hold senior staff group posts is determined by the Forestry Commission's Senior Pay Committee in accordance with guidelines prescribed by the Cabinet Office. Other board members' remuneration is determined by the standard processes set out in the Forestry Commission's pay and grading system.

Further details on remuneration are set out in notes 3.1 to 3.3 to these accounts.


10. Auditors

These accounts are prepared in accordance with a direction given by the Treasury in pursuance of Section 7 of the Government Resources and Accounts Act 2000. They are audited by the Comptroller and Auditor General. The fee for statutory audit services in respect of these accounts was £21,000. There were no further assurance or other non-audit services.

Professor J.M. Lynch

Chief Executive and Agency Accounting Officer

19 October 2004



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

Under Section 7 of the Government Resources and Accounts Act 2000 the Treasury has directed the Forestry Commission to prepare a statement of accounts for Forest Research for each financial year in the form and on the basis set out in the accounts direction. The accounts are prepared on an accruals basis and must give a true and fair view of the Forest Research state of affairs at the year-end and of its income and expenditure, recognised gains and losses and cash flows for the financial year.

In preparing the accounts the Forestry Commission is required to:

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

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



Statement on Internal Control

1. Scope of responsibility

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

On 1 April 2003, the Forestry Commission changed its structure to reflect a step change in co-operation with rural affairs departments in England, Scotland and Wales. This is underpinned by concordats worked up individually between each rural affairs department and the relevant Forestry Commission National Office. The required changes included:

- the Forestry Commission's Forest Enterprise agency was devolved into three bodies, including Forest Enterprise England, charged with managing separately the public forests in England, Scotland and Wales;
- an Executive and two Non-executive Commissioners for each country were appointed to the Board of Forestry Commissioners. The Board also delegated to National Committees in each country responsibility for country-specific issues; and
- a new ministerial committee, involving Ministers from England, Scotland, Wales and Northern Ireland was formed to discuss international issues and any crosscutting issues where collaboration would be advantageous and to monitor the effectiveness of the new arrangements.

The Forestry Commission Research Agency remained a GB-wide agency funded by the UK Parliament.

The accountability arrangements for the Director General as Principal Accounting Officer of the Forestry Commission are set out in the Memorandum at Annex 4.1 of *Government accounting*. The Chief Executive of the Agency is responsible through the Director General to the Forestry Commissioners for the management of the Agency. The Chief Executive has a right of access to the Commissioners, and to Forestry Ministers, and will meet them at least once a year. The Director General designates the Chief Executive as Agency Accounting Officer, responsible for the Agency's accounts and financial procedures, and for the proper, effective and efficient use of resources provided to the Agency within the terms of the Framework Document and in pursuit of the agreed Corporate Plan objectives and targets. The Chief Executive is a member of the Forestry Commission's Executive Board.

The Chief Executive also operates a separate Agency Executive Board to provide leadership and direction for the Agency.

2. The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Agency's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in the Agency for the year ended 31 March 2004 and up to the date of approval of the *Annual report and accounts*, and accords with Treasury guidance.

3. Capacity to handle risk

The Agency has taken a positive approach to risk management, which it feels is entirely appropriate to its role and remit. The process includes a Forestry Commission risk management policy document approved by the Forestry Commission's Executive Board. The Forestry Commission has a departmental Risk Improvement Manager who is supported by a risk champion for each body, including the Agency. During the year, the Head of Personnel and Administration of Forest Research has acted as risk champion for the Agency, including responsibility for maintenance of the risk register.

4. The risk and control framework

In response to the structural changes and further central developments in the operation of Audit Committees within the public sector, changes to the membership and terms of reference of the Forestry Commission Audit Committee were made during the year. These included strengthening the non-executive representation on the Committee to include a member per country, as well as executive representation from across the organisation, including the Agency, to allow the Committee to continue to fulfil its overarching Forestry Commission-wide role. The Committee met four times during the year to agree its revised role and responsibilities and to consider a range of reports from management, internal audit and external audit. For the first time, the Committee advised the Accounting Officers on the draft accounts prior to signature. As part of the Forestry Commission's governance framework, the Board of Commissioners received oral reports on Committee business during the year and a more formal annual report on the discharge of its duties at the end of the year.

The country Executive Commissioners and Agency Chief Executives were provided with more detailed advice on the work of Internal Audit in particular, and control in general, via local Internal Control Committees (ICCs). In line with the countries, the Forest Research Audit Committee was reconstituted as an ICC in 2003–04. The Agency's ICC covers all aspects of the Agency's business. The Committee met twice during the year to set its terms of reference, to establish formal arrangement for the provision of internal audit services and to receive progress reports on audit activity and risk management. In early April 2004, the Committee reviewed the results of audit work during the year and agreed an updated audit strategy for 2004–05 onwards including forward planning, resources and charging arrangements.

Work on implementing the risk management initiative continued during the year with the revision of the risk register. Following a recent internal review of the Agency's management structure, this will include updating management responsibility for risk in 2004–05 to incorporate the new research Heads of Division, where appropriate. At the corporate level, a seminar involving all relevant parts of the organisation, including Internal Audit, was held in early June 2004 to review progress during 2003–04 and consider next steps, including training for risk champions. Any points of relevance to Forest Research in terms of changes to Forestry Commission policy and procedures will be advised in due course. The group will meet again in the autumn to review progress.

The Agency has a service agreement with the Forestry Commission's Internal Audit unit that operates to prescribed Government Internal Audit Standards. They submit regular reports, which include the Head of Internal Audit's independent opinion on the adequacy and effectiveness of the Agency's system of internal control, together with recommendations for improvement. The Audit planning process is subject to regular update to ensure that it remains focused on the key risks to the Agency.

5. Review of effectiveness

As Agency Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the 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 letter and other reports. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Board and the Audit Committee, and a plan to address weaknesses and ensure continuous improvement of the system is in place.

My review of the effectiveness of the system of internal control is informed by:

- the work of the internal audit team;
- the results of accounting inspections;
- the work of the health and safety team;
- the Forestry Commission Audit Committee and Forest Research ICC;
- the risk improvement manager; and
- comments made by the external auditors in their management letter and other reports.

The Head of Internal Audit has prepared an annual report and assurance statement to the Agency Accounting Officer. The overall opinion is that internal control within Forest Research generally provides *substantial* assurance that material risks to the achievement of objectives are adequately managed. The evidence, based on audit coverage last year coupled with the results from previous years, is that risk is generally well managed across the control spectrum with no major weaknesses identified.

Whilst not affected to the same extent as the Forestry Commission and the Forest Enterprise Agency by the Forestry Devolution Review outcome, Forest Research has nevertheless been subject to some recent, and ongoing, significant changes to its governance and control framework. These include the appointment of a new Chief Executive and subsequent structural review; the consequential appointment of new Heads of Division; a revised Research Strategy; and the proposed implementation of a formal Quality Assurance scheme. In terms of the Forestry Devolution Review, it has also been a participant in the introduction of the service board culture for corporate activities. Some of these changes have only recently been put in place, some are still ongoing and others, such as the shared services regime, will take time to bed in. The Head of Internal Audit will evaluate the impact on control of these changes by undertaking a review of the effectiveness of the corporate governance framework and associated risk management processes within the Agency in 2004–05.


6. Significant internal control problems

No significant internal control problems were identified.

Professor J.M. Lynch

Chief Executive and Agency Accounting Officer

19 October 2004



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

I certify that I have audited the financial statements on pages 158 to 172 under the Government Resources and Accounts Act 2000. These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages 161 to 163.

Respective responsibilities of the Agency, the Chief Executive and Auditor

As described on page 152, the Agency and Chief Executive are responsible for the preparation of the financial statements in accordance with the Government Resources and Accounts Act 2000 and Treasury directions made thereunder and for ensuring the regularity of financial transactions. The Agency and Chief Executive are also responsible for the preparation of the other contents of the Annual Report. My responsibilities, as independent auditor, are established by statute and I have regard to the standards and guidance issued by the Auditing Practices Board and the ethical guidance applicable to the auditing profession.


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

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

I review whether the statement on pages 153 to 155 reflects the Agency's compliance with Treasury's guidance on the 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. I am not required to consider, nor have I considered, whether the Accounting Officer's Statement on Internal Control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the Agency's corporate governance procedures or its risk and control procedures.

Basis of audit opinion

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



I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by error, or by fraud or other irregularity and that, in all material respects, the expenditure and income have been applied to the purposes intended by Parliament and [the financial transactions] conform to the authorities 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 Forest Research Agency at 31 March 2004 and of the surplus, total recognised gains and losses and cash flows for the year then ended and have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and directions made thereunder by Treasury; and
- in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

I have no observations to make on these financial statements.

John Bourn

Comptroller and Auditor General

25 October 2004

National Audit Office

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Victoria

London SW1W 9SP

Income and Expenditure Account for the year ended 31 March 2004

		2004	2003
	Notes	£000	£000
Income			
Income from research, development and survey services			
Forestry Commission customers	2	11,186	10,833
Non-Forestry Commission customers			
European Commission		844	510
Other		807	1,165
Total income		12,837	12,508
Expenditure			
Staff costs	3	7,997	7,528
Other management costs	4 & 5	2,075	1,899
Materials and services	5	2,355	2,453
Total expenditure		12,427	11,880
Net operating surplus/(deficit)		410	628
Notional cost of capital	8	(384)	(620)
Net surplus/(deficit) for the year		26	8
Transferred to General Fund		26	8

Statement of Total Recognised Gains and Losses for the year ended 31 March 2004

	2004	2003
	£000	£000
Net surplus/(deficit) for the year	26	8
Revaluation surplus/(loss) for the year	376	500
Total recognised gains/(losses)	402	508

The notes on pages 161 to 172 form part of these accounts.

Balance Sheet as at 31 March 2004

		31 March	31 March
		2004	2003
			as restated
	Notes	£000	£000
Fixed assets			
Tangible assets	6	10,731	10,378
Intangible assets	7	36	—
		10,767	10,378
Current assets			
Stocks and Work in progress	9	536	162
Debtors	10	613	1,031
Cash at banks and in hand	11	512	—
		1,661	1,193
Current liabilities			
Creditors – amounts falling due within one year	12	715	660
Provisions for liabilities and charges	13	150	—
		865	660
Net current assets		796	533
Total assets less current liabilities		11,563	10,911
Taxpayers Equity			
General Fund	14	6,926	6,523
Revaluation Reserve	15	4,637	4,388
Total Taxpayers Equity		11,563	10,911

Professor J.M. Lynch

Chief Executive and Agency Accounting Officer

19 October 2004

The notes on pages 161 to 172 form part of these accounts.

Cash Flow Statement for the year ended 31 March 2004

	2004	2003
		as restated
Notes	£000	£000
Reconciliation of net surplus to net cash flow		
from operating activities		
Net surplus/(-) deficit for the year	26	8
Notional cost of capital	8 384	620
Depreciation	4 & 6 485	389
(Profit)/loss on disposal of assets	11	5
Decrease/(-)Increase in stocks and work in progress	(374)	97
Decrease/(-)Increase in debtors	418	(560)
Increase/(-)Decrease in creditors	55	(81)
Increase /(-)Decrease in provisions	150	
Less increase in capital creditors	(28)	
Net cash inflow from operating activities	1,127	478
Capital expenditure		
Payments to acquire tangible fixed assets	(340)	(503)
Payments to acquire intangible fixed assets	(36)	-
Increase in capital creditors	28	-
Capital expenditure – cash outlay	(348)	(503)
Non-cash inter-country transfers	(16)	9
Total net cash inflow/(-) outflow	763	(16)
Financing		
Cash surplus(-)/deficit transferred to/funded by Forestry Commission	(251)	16
Increase/(decrease) in cash	512	-
Reconciliation of net cash flow to movement in net funds		
Increase in cash and bank	512	-
Net funds at 1 April 2003	-	-
Net funds at 31 March 2004	512	-

The notes on pages 161 to 172 form part of these accounts.

Notes to the Accounts

Note 1. Accounting Policies

1.1 Form of Accounts

In accordance with Section 7 of the Government Resources and Accounts Act 2000, the accounts are drawn up in a format agreed and approved by Treasury. They are prepared in accordance with the 2003–04 *Resource accounting manual* (RAM) issued by HM Treasury, under the historical cost convention modified by the inclusion of the valuation of assets.

The accounting policies contained in the RAM follow UK Generally Accepted Accounting Practice for companies (UK GAAP) to the extent that it is meaningful and appropriate to the public sector.

The particular accounting policies adopted by the Agency are described below. They have been applied consistently in dealing with items considered material in relation to the accounts.

1.2 Tangible Assets

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

Staff payroll costs and expenditure on materials, consumables, etc. of systems development software, for general use within the Agency, are recognised as tangible fixed assets. There was no relevant in-house development activity in the year 2003–04.

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

1.3 Valuation of Assets

Land and buildings were subjected to a triennial revaluation as at 31 March 2002 by professionally qualified land agents employed by the Forestry Commission following the principles set out in the *Royal Institute of Chartered Surveyors Appraisal and Valuation Manual*. Research and office equipment is revalued every three years using prevailing current prices for replacement items. Between revaluations, tangible asset values are updated annually using appropriate indices provided by the Commission's District Valuers.

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

1.4 Depreciation

Freehold land is not depreciated.

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

Freehold buildings – 20 to 80 years.

Research and office equipment – 3 to 20 years (the lower limit has been changed from 4 to 3 years to bring FR treatment in line with the rest of the Forestry Commission).



1.5 Intangible Assets

From 1 April 2003, purchases of software with an acquisition value of £1,500 are recognised as intangible fixed assets and amortised over their expected useful lives to a maximum of seven years. Software purchases with an acquisition value of less than £1,500 are also treated as intangible fixed assets, on a pooled asset basis, the amount being material. Prior to 1 April 2003, all costs of software were charged to the income and expenditure account in the period in which they were incurred.

1.6 Stocks and Work in Progress

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

1.7 Provision for Bad and Doubtful Debts

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

1.8 Research and Development

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

1.9 Cost of Capital Charges

Charges, representing the cost of capital utilised by the Agency, are identified on the Income and Expenditure Account. The charge is calculated at the Government's standard rate of 3.5% in real terms on the average carrying amount of all assets, except for cash balances, less liabilities.

1.10 Corporation Tax

Forest Research is not subject to corporation tax.

1.11 Value Added Tax (VAT)

The Forestry Commission is registered for VAT and accounts for it on a Great Britain basis, including any Agency activity. Income and expenditure shown in the accounts is net of any recoverable VAT. Non-recoverable VAT is charged to the accounts in the year in which it is incurred.

1.12 Foreign Currencies

Transactions in foreign currencies are recorded at the rate ruling at the time of the transaction. Exchange differences are taken to the Income and Expenditure Account. Exchange rate gains as at 31 March 2004 amounted to £19,476.53.

1.13 Insurance

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

1.14 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 accrues 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 provided in note 3 to the accounts.

1.15 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. For Agency staff leaving after 1 April 1999, excepting those who left during 2000–01 under the provisions of the Modernising Government Fund, future liabilities for monthly 'compensation' payments will be shown in the Agency's accounts. To date, there have been no early retirements meeting this criterion.

1.16 Third Party Assets

Forest Research acts as co-ordinator for a number of projects partially funded by the European Commission. The duties of co-ordinators include receiving funds on behalf of partners for onward transmission once work programmes have been approved. In 2002–03 these monies were disclosed on the face of the accounts. Following a ruling by Treasury that these are Third Party Assets, which neither the Agency or government more generally has a direct beneficial interest in, the sums concerned are not recognised in the accounts for 2003–04. The relevant parts of the 2002–03 figures have been restated in the 2003–04 accounts to reflect the accounting policy.

Note 2. Income from Forestry Commission and Forest Enterprise

The Agency undertakes a significant proportion of the Forestry Commission's overall annual research programme in the form of specifically commissioned projects to deliver agreed outputs. A separate annual charge is agreed for each project based on full cost recovery. These charges amounted to £9.6 million. Costs established in one year are used to determine project charges for future years. The Agency also provides research and survey services for Forest Enterprise and other parts of the Forestry Commission on a full cost recovery basis.

Total income from Forestry Commission customers consisted of:

	2004	2003
	£000	£000
Research, development and other services to:		
Forestry Commission	10,808	9,797
Forest Enterprise	378	1,036
	11,186	10,833

Note 3. Staff Costs and Numbers

3.1 Employee costs during the year amounted to:

	2004	2003
	£000	£000
Wages and Salaries	6,618	6,285
Social Security Costs	506	424
Employer's Superannuation Costs	864	797
Agency Staff Costs	9	22
	7,997	7,528

To comply with RAM 2003–04 costs of temporary staff, engaged from employment agencies, have been included with staff costs.

Staff were covered by the Principal Civil Service Pension Scheme (PCSPS) which is an unfunded multi-employer defined benefit pension scheme but the Forestry Commission is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out as at 31 March 2003. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice-pensions.gov.uk).

For 2003–04, employers contributions of £864,000 were payable to the PCSPS (2002–03:£797,000) at one of four rates in the range 12% to 18.5% of pensionable pay, based on salary bands. The scheme's Actuary reviews employer contributions every four years following a full scheme valuation. Rates will remain the same in 2004–05, subject to revalorisation of the salary bands, but will increase in 2005–06. 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 can opt to open a partnership pension account, a stakeholder pension with an employer contribution. No Agency staff have yet taken this option.

3.2 The total remuneration, excluding pension contributions of Dr Peter Freer-Smith, Research Director, the highest paid member of the Board, was £62,869.50. That of Professor Jim Lynch, Chief Executive, with effect from July 2003 was £54,630.72. The Chief Executive is an ordinary member of the Pension Scheme.

3.3 The salary and pension entitlements of the management board members is shown below.

Name	1 Salary including performance pay £000	2 Benefits in kind (rounded to the nearest £100) £	3 Real increase in pension and related lump sum £000	4 Total accrued pension at age 60 and at 31/3/04 and related lump sum £000	5 CETV @ 31/3/03 £000	6 CETV @ 31/3/04 £000	7 Real increase in CETV after adjustment for inflation and changes in market investment factors £000	8 Employer contribution to partnership pension account including risk benefit cover £
2003–04								
Jim Lynch (wef 1/7/2003)	50–55	–	0–2.5	0–5.0	0	10	9	0
Peter Freer-Smith	60–65	1000	0–2.5 plus 2.5–5.0 lump sum	15–20 plus 50–55 lump sum	225	248	13	0
Ken Charles	40–45		0.25 plus 2.5–5.0 lump sum	15–20 plus 50–55 lump sum	288	318	16	0
Tony Cornwell	40–45		0–2.5	0–5	37	49	9	0
William Mason	40–45		0–2.5 plus 2.5–5.0 lump sum	15–20 plus 50–55 lump sum	256	280	11	0
2002–03								
Jim Dewar	10–15		0–2.5	25–30				
Peter Freer-Smith	50–55	800	0–2.5	10–15				
Ken Charles	35–40		0–2.5	15–20				
Tony Cornwell	35–40		0–2.5	0–5				
Bill Mason	40–45		0–2.5	10–15				

CETV: Cash Equivalent Transfer Value.

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).

Benefits in kind

The monetary value of benefits in kind shown in the table above covers benefits provided by the employer that are treated as taxable income by the Inland Revenue. They are in respect of the Car Provision for Employees Scheme.

3.4 Pension schemes

Pension benefits are provided through the CSP arrangements. From 1 October 2002, civil servants may be in one of three statutory based 'final salary' defined benefit schemes – classic, premium or classic plus. The schemes are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions under these three schemes are increased annually in line with changes in the Retail Price Index. New entrants after 1 October 2002 may choose between membership of premium or joining a good quality 'money purchase' stakeholder arrangement with a significant employer contribution (partnership pension account).

Employee contributions are set at the rate of 1.5% of pensionable earnings for classic and 3.5% for premium and classic plus. Benefits in classic 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. For premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum but members may give up (commute) some of their pension to provide a lump sum. Classic plus is essentially a variation of premium, but with benefits in respect of service before 1 October 2002 calculated broadly as for classic.

The partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3% and 12.5% (depending on the age of the member) into a stakeholder pension product chosen by the employee. The employee does not have to contribute but where they do, the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.8% of pensionable salary to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement).

Further details about the CSP arrangements can be found at the website www.civilservice-pensions.gov.uk

Columns 5 and 6 of the table at note 3.3 show the member's Cash Equivalent Transfer Value (CETV) accrued at the beginning and end of the reporting period. Column 7 reflects the increase in CETV effectively funded by the employer. It takes account of the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which the disclosure applies. The CETV figures, and from 2003–04 the other pension details, include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the CSP arrangements and for which the CS Vote has received a transfer payment commensurate to the additional pension liabilities being assumed. They also include any additional pension benefit accrued to the member as a result of their purchasing additional years of pension service in the scheme at their own cost. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

3.5 The average number of employees (full-time equivalents) during the year was 278 (2002–03: 280).

3.6 Benefits in kind are provided under the following schemes:

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

Each scheme is subject to conditions and financial limits.

The Advances of Salary for House Purchase scheme had loans with an outstanding balance of £2,500 or more to eight individual members of staff at 31 March 2004. The total outstanding value of all loans (15) was £64,172.40.

Note 4. Other Management Costs

Other management costs are stated after charging:

	2004	2003
	£000	£000
Loss on disposal of fixed assets	11	5
Auditors' Remuneration	21	19
Depreciation of Fixed Assets	485	389
Travel and Subsistence	458	460
Staff Transfer Expenses	20	68
Training	112	134
Building Maintenance	381	431
Utilities	259	220
Computer Supplies	77	96
Provision for claims for employer liability	150	-
Other Expenditure	101	77
	2,075	1,899

Note 5. Charges from the Forestry Commission

Included within Other Management Costs and Materials and Services are charges from the Forestry Commission and Forest Enterprise amounting in total to £986,462 (2002–03: £1,018,580).

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

Note 6. Tangible Fixed Assets

	Freehold Land and Buildings £000	Machinery and Equipment £000	Total £000
Valuation:			
At 1 April 2003	8,932	3,628	12,560
Additions	11	329	340
Disposals	(9)	(85)	(94)
Transfers	131	(36)	95
Reallocation	25	(25)	–
Revaluation adjustment	376		376
At 31 March 2004	9,466	3,811	13,277
Depreciation:			
At 1 April 2003	168	2,014	2,182
Provided in year	184	301	485
Disposals	(1)	(82)	(83)
Transfers	(8)	(30)	(38)
At 31 March 2004	343	2,203	2,546
Net book value:			
At 31 March 2004	9,123	1,608	10,731
At 31 March 2003	8,764	1,614	10,378

Fixed assets were revalued as at 31 March 2004 in accordance with accounting policies. The valuation includes the principal research stations at Alice Holt Lodge near Farnham in Surrey and the Northern Research Station, Roslin near Edinburgh, with net book values of £6.0 million and £2.6 million respectively at 31 March 2004.

Note 7. Intangible Fixed Assets

	2004	2003
	£000	£000
Balance at 1 April 2003	–	–
Additions	36	–
Balance at 31 March 2003	36	–

Intangible assets relates wholly to purchased software. Prior to 1 April 2003 software costs were charged to the income and expenditure account in the period they were incurred. From 1 April 2003, software has been recognised as an intangible fixed asset. The addition in 2003–04 is the value as at 31 March 2004 reflecting applied enhancements during the year. Consequently, no amount has been amortised in 2003–04.

Note 8. Cost of Capital

Notional cost of capital based on 3.5% (2002–03: 6%) of average total assets less current liabilities employed in 2003–04 amounted to £384,287 (2002–03: £620,068).

Note 9. Stocks and Work in Progress

	2004	2003
	£000	£000
Research Work in Progress	536	162
	536	162

Note 10. Debtors

	2004	2003
	£000	£000
Amounts falling due within one year		
EC debtors	236	457
Other Trade debtors	167	350
Other debtors	21	51
Prepayments	136	100
	560	958
Amounts falling due after one year – house purchase loans	53	73
	613	1,031

Note 11. Cash at Banks and in Hand

As part of its normal activities Forest Research maintains Sterling and Euro bank accounts primarily used for the receipt of income from non-Forestry Commission customers. These accounts are cleared to the Commission's main account on a regular basis. The balances at 31 March 2004 were £512,283.61. Sums held in these accounts on behalf of partners in European Commission projects are treated as third party assets and not included in the balances shown.

Note 12. Creditors: amounts falling due within one year

	2004	2003
		as restated
	£000	£000
Payments received on account	241	350
Trade creditors	441	310
Other creditors including taxation and social security costs	33	
	715	660

Funds held on behalf of partners in European Commission projects are treated as third party assets and not recorded on the face of the accounts (see note 1.16). At 31 March 2004 the amount held in Forest Research Bank accounts on behalf of partners was £348,884.55 (31 March 2003: £517,386.92).

Note 13. Provisions for Liabilities

	2004	2003
		as restated
	£000	£000
Balance brought forward	–	–
Provided in year	150	–
Balance carried forward	150	–

Provision has been made for legal claims against the Agency in respect of all known claims where legal advice indicates that it would be prudent to make a provision. Expenditure is likely to be incurred over a period of one to two years.

Note 14. General Fund

	2004	2003
		as restated
	£000	£000
Balance brought forward	6,523	5,869
Transfer from revaluation reserve – disposed assets	127	
Movement in year		
Net surplus/(-) deficit for year	26	8
Transfer of fixed assets from/(-) to other Forestry Bodies	133	1
Cash surplus to/(-)/ deficit from Forestry Commission	(251)	16
Non-cash inter-country transfers	(16)	9
Notional cost of capital	384	620
Balance carried forward	6,926	6,523

Transfers of fixed assets to and from other parts of the Forestry Commission include buildings and equipment. A research office and stores in Scotland were transferred to the Agency (net value £140,000) while three greenhouses (nil value) were transferred to the Commission. Copying and video-conference equipment (net value £7,000) were transferred to the Commission.

Note 15. Revaluation Reserve

	2004	2003
	£000	£000
Balance brought forward	4,388	3,888
Transfer to General Fund – disposed assets	(127)	
Revaluation surplus for the year ended 31 March 2004		
Land and Buildings	376	500
Balance carried forward	4,637	4,388

Note 16. Related Party Transactions

During the year, Forest Research has had a significant number of material transactions with the Forestry Commission and Forest Enterprise agency who are regarded as related parties.

In addition, Forest Research has had various material transactions with other Government Departments and other central Government bodies. Most of these transactions have been with the Department of Trade and Industry and the Department for Environment, Food and Rural Affairs.

Professor Jim Lynch, Chief Executive, is Distinguished Professor of Life Sciences at the University of Surrey. The value of payments to the University for services provided in the year to 31 March 2004 was £1,645.02.

Note 17. Losses Statement

Losses totalled £2,769 from 2 cases (2002–03: £1,042 from 2 cases). Special payments totalled £14,985 from 49 cases (2002–03: £5,702 from 14 cases).

Note 18. Financial Instruments

FRS 13: *Derivatives and other financial instruments* requires disclosure of the role which financial instruments have had during the period in creating or changing the risks an entity faces in undertaking its activities. Because of the way in which government departments are financed, the Agency 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 Agency has no powers to borrow or invest surplus funds and financial assets, and liabilities are generated by day-to-day operational activities and are held not to change the risks facing the Agency in undertaking its activities.

Liquidity risk

The Agency is not exposed to significant liquidity risks because its net revenue and capital resource requirements are financed by resources voted annually by the UK Parliament.

Interest rate risk

The Agency is not exposed to interest rate risk.

Foreign currency risk

The agency has commercial relations with foreign customers and the European Commission, having dealings in foreign currencies and the Euro as well as Sterling. The treatment of gains and losses arising from transactions in foreign currencies is described at note 1.12 to the accounts. The Agency is therefore exposed to foreign currency risk, but the risk is not significant, income from these sources being no more than 6.6% of the Agency's total income.

Note 19. Financial Performance Measures

The target to recover full resource costs, including capital, from internal and external customers was achieved. The Agency achieved an operating surplus of £410,000, which, after allowing for the cost of capital, represented a cost recovery of 100.2% (2002–03: 100.1%).

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