



Comisiwn Coedwigaeth Cymru
Forestry Commission Wales

ANNUAL REPORT AND ACCOUNTS 2006-07

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FOREWORD by Jon Owen Jones, Chairman FC Wales National Committee

I became a Forestry Commissioner for Wales in January 2007 and chaired my first National Committee in the same month. So I would like to begin this report by paying tribute to my predecessor, Gareth Wardell, who served as a Forestry Commissioner for more than six years and chaired the National Committee for Wales since its inception in 2003. At the same time as thanking Gareth, I would also like to acknowledge the service of both Anthony Bosanquet who was also a Forestry Commissioner up until January and Professor John Good who served in a number of non-executive roles for the Forestry Commission, most recently as the inaugural Chairman of the Woodland Strategy Advisory Panel and member of the National Committee. Gareth, Anthony and John will be missed although we have some admirable replacements as Judith Webb has become a Forestry Commissioner for Wales and Dr Roger Cooper has taken over as Chairman of the Advisory Panel.

We have all enjoyed our initial few months serving on the National Committee and already we are able to see the exciting opportunities that lie ahead for both forestry and Forestry Commission Wales into the future. My initial thoughts are that over the last few years we have had a tendency to focus on the potential problems arising from forestry and forests. To this end, significant efforts have been made in recent years to diversify and improve the visual appearance and environmental quality of Wales's woodlands whether this is by our direct management of the Assembly woodlands or by the use of our *Better Woodlands for Wales* grant scheme. But over the last 12 months the climate change agenda began to open people's eyes to a wider range of benefits that sustainably managed woodlands can deliver. Whether this includes the storage of carbon in living trees or timber used for long-term construction purposes or the possibilities of using more wood as a carbon neutral fuel, the range of possibilities is being increasingly discussed. This is why the work we are currently leading on behalf of the Welsh Assembly Government to refresh the *Woodlands for Wales* strategy and to ensure it is fully aligned to the Environment Strategy for Wales, is so important. We hope that the majority of this work will be complete by the summer of 2007.

INTRODUCTION by Ian Forshaw, Director Wales

This year has seen us working on a range of new initiatives, whilst continuing to deliver our core programmes of sustainable management for the woodlands of Wales. Of course this sustainable management is not only delivered by our direct management of the Assembly woodlands, but also through grants and other support for the 60% of woodlands in Wales that are not managed by Forestry Commission Wales. In this latter context, I have been very pleased by the uptake of our new grant scheme, *Better Woodlands for Wales*, since its official launch by the Minister in July 2006.

The scope of work and initiatives in this annual report is only possible through the dedication and hard work of our staff, as well as that of partners that have helped us in our task. My staff have delivered the vast majority of their targets this year, including some that have stretched the organisation at times. Those targets that have not been met will help us improve our performance as we aim to deliver even greater value for money in future. Some of our performance targets have taken us well beyond our usual areas of operation, into new and challenging policy areas. In our role of acting as the Welsh Assembly Government's forestry department we are very pleased to be able to use our expertise to deliver policy that supports this wider government agenda. Our work on both affordable housing and renewable energy are good examples of this. We are all looking forward to a successful outcome from the tender exercise for the National Forest Estate Wind Farm programme that we have developed on behalf of the Welsh Assembly Government. The rigour of this process has already been tested once via our successful defence at the judicial review that we won during 2006 and again I thank all of my staff for the dedication and discipline that every one of them displayed both before and since this court case.

As well as these new and important areas of work, we continue to deliver our more traditional programmes to provide benefits for the people of Wales. This report goes into more detail but other examples that I am particularly proud of include the work we do to help educate the young people of Wales. We launched our Education strategy this year, much of which we have been delivering for a few years now. But to see the response that our work in this area received at the Woodlands for Learning Conference we organised in February was memorable. Also the work we have done this year to help develop the capacity of the forestry businesses of Wales, through support of the Wales Forest Business Partnership, has been very pleasing and hopefully a good investment for Welsh forests into the future.

WHO WE ARE AND WHAT WE DO

As a nation, we face many challenges in health, education, employment and the environment. But, no matter how good the policies developed to address them, ultimately what counts is delivery. It is action at grassroots level that often makes all the difference. The country's forests and woodlands can contribute to all of these important agendas and, at the Forestry Commission, we are known not just for sound policies but for actually getting things done – effectively and imaginatively. We are experts in what our forests and woodlands can offer to deliver the greatest good, for today and tomorrow.

We go beyond policy to practicality. We're not just well intentioned – we know what to do and we do it in new, interesting and sometimes unexpected ways. Our people are open-minded and outward-looking. We are always interested in exploring better ways to use our forests but we always focus on where we can deliver results that really make a difference. We use our breadth of knowledge, experience and skills to bring together different partners and to initiate new activities. And because our knowledge is respected, we are trusted to innovate and suggest fresh approaches. Most of all, we deliver positive change at local and national level and open people's eyes to the many real benefits that forests can bring.

Status

Forestry Commission Wales came into being on 1 April 2003. It serves as the forestry department of the Welsh Assembly Government to advise on and implement forestry policies. It also manages the national forest estate to deliver public benefits. The responsibility for forestry policy and its financial framework rests with the Minister for Environment, Planning and Countryside.

Forestry Commission Wales is part of the Forestry Commission, a cross-border public body with a Chairman and Board of Commissioners. The responsibilities and powers of the Forestry Commissioners are derived mainly from the Forestry Acts 1967 and Plant Health Act 1967. There are a number of other applicable Great Britain Acts and Statutory Instruments, including the Forestry Commission Bye Laws 1982.

Strategy

The Welsh Assembly set out its vision for forestry in Wales in '*Woodlands for Wales*', published in July 2001. It describes a vision to provide real social and community benefits, both locally and nationally, whilst supporting thriving woodland-based industries and contributing to a better quality environment throughout Wales. '*Woodlands for Wales*' can be found on the Forestry Commission Wales website at www.forestry.gov.uk/wales.

Aims and objectives

The aims and objectives of Forestry Commission Wales flow from *Woodlands for Wales* and from the wider objectives of the Welsh Assembly Government. As a predominately rural activity, forestry plays a major part in delivering rural development, but also has an increasingly important role in helping to deliver other objectives such as urban regeneration, social and environmental justice, renewable energy and healthier lifestyles. Forestry Commission Wales has five strategic, outcome related objectives expressed in our Corporate Plan 2005/06 – 2007/08 [*Better Woodlands for a Better Wales* - published March 2005]:

- Sustainable woodland management.
- Woodlands supporting effective and durable communities.
- Woodlands making a positive contribution to a thriving and sustainable Welsh economy.
- Woodlands contributing to a more healthy and resilient environment.
- Effective and efficient customer focused delivery.

These objectives are built around the theme of sustainable forest management and the delivery of outcomes which are built on the economic, environmental and social outputs from forest management

that will help achieve our overall vision of *Better Woodlands for a Better Wales*. We will work towards our vision in a number of ways:

- **Stewardship** - We act as stewards for the Assembly woodland estate, which accounts for 38% of woodland in Wales.
- **Grants** - Outside the estate we encourage stewardship and good woodland management by giving targeted grants, reaching a further 15% of woodlands in Wales.
- **Business** - We generate income from the Assembly woodland estate through the sustainable harvesting of timber and other activities and reinvest in projects that deliver our social and environmental goals.
- **Regulation** - We regulate forestry practice throughout Wales by licensing felling and replanting; through environmental impact assessments; and by acting as Relevant Authority for access to woodlands with statutory rights.
- **Policy, communications and research** - We consult widely with stakeholders and maintain a close working relationship with both the Welsh Assembly Government and the Forestry Commission outside Wales.
- **Partnerships** - To maximise delivery, we seek to work in partnerships with others at local, district or national levels on projects where this will help us meet our strategic objectives.

Forestry Commission Wales' annual spending plans can be found on the Welsh Assembly Government's website at www.wales.gov.uk.

Our values – how we behave in fulfilling our objectives

- **Teamwork** – Working as teams with colleagues and others to ensure that trees, woods and forests meet the needs of people in each part of the country.
- **Professionalism** - Enjoying and taking pride in our work, achieving high standards of quality, efficiency and sustainability.
- **Respect** – Treating one another with consideration and trust, recognising each person's contribution.
- **Communication** – Being open, honest and straightforward with colleagues and others, as willing to listen as to tell.
- **Learning** – Always learning, from outside the Forestry Commission as well as from within.
- **Creativity** – Not being afraid to try new ways of doing things.

MANAGEMENT COMMENTARY

Introduction and highlights

During the year, Forestry Commission Wales undertook a number of activities to support delivery of its corporate objectives and wider Assembly policy. Highlights included:

Woodland strategy review

In January 2006 the Minister asked us to lead on refreshing *Woodlands for Wales*, the National Assembly's strategy for Trees and Woodlands in light of the publication of the Environment Strategy for Wales. The Minister asked that the Woodland Strategy Advisory Panel lead on providing advice and input to the review. The Panel began its work by asking that the review show a light touch, recognising the importance of the 50-year vision for Welsh woodlands articulated in *Woodlands for Wales*. By the end of the year good progress has been made, with a new structure proposed to match the strategy and action plan arrangements for the Environment Strategy. The indicators are also being reviewed as part of the process and the intention is to seek the Minister's approval for the aligned and reviewed strategy in early 2007/08.

National Forest Estate Wind Farm Programme

The year almost saw the completion of a lengthy and resource intensive tender exercise for the letting of option agreements for the development of Windfarms on the Assembly estate, during which we successfully defended a judicial review of the tender process. We expect the Welsh Assembly Government to sign option agreements with the successful companies emerging from the evaluation exercise later in 2007/08.

Affordable housing

In 2004 our Minister, Carwyn Jones AM, asked us to investigate the potential for the construction of affordable housing on the land we manage on behalf of the Assembly. Following an assessment of the estate, a number of potentially suitable sites were identified across Wales. Since then, we have been working with the relevant Local Authorities and other bodies that have expressed support for the project to develop specific housing proposals based on sustainable design and construction. Two such sites have come to fruition during the year, at Ceinws and Dinas Mawddwy.

As the Assembly has a duty under section 121 of the Government of Wales Act 1998 to promote sustainable development, the Minister asked that these schemes be exemplars. To achieve this we commissioned the Building Research Establishment to help us develop an Assessment Framework to ensure that the affordable housing is constructed in a manner that is sustainable and sensitive to the surrounding environment. The framework looks at every aspect of the construction process from the organisation of the development company, to the design and specification of the proposed building. It examines the elements of the construction process and demonstrates the steps that need to be taken to reduce consumption in occupancy. It covers the menu of sustainability issues from social responsibility to passive solar design, from sourcing local timber to encouraging sustainable lifestyles. This encourages developers to offer the maximum elements of sustainability possible for the finance on offer, testing the market to produce the best possible sustainable housing for the site.

As well as this framework, during the year we also published Development Guidelines for Affordable Housing on the Assembly's estate. This sets out the approach we will take to all future proposals and offers simple guidance to potential developers. The Minister launched both the Framework and the Development Guidelines in Cardiff Bay on 22 March 2007.

Launch of *Better Woodlands for Wales*

Our Minister, Carwyn Jones AM, officially launched the new woodland grant scheme, *Better Woodlands for Wales*, in front of more than 120 guests at the Royal Welsh Show in July. Since its launch, over 280 applications have been made to bring woodlands into the scheme. Of these, 225 have been mapped and total some 10,000 hectares, giving an average scheme area of 45 hectares. A stakeholder group to oversee the continued development and implementation of the scheme has been formed and met for the first time in December. Stakeholders raised no major concerns and the woodland sector is generally

supportive, although there are a lot of changes for all to get used to. *Better Woodlands for Wales* does not yet provide grants for new planting but we plan to introduce these as part of the new Rural Development Plan later in 2007.

Rural Development Plan

The Rural Development Plan for 2007 - 2013 sets out the agreed programmes through which European support from the European Agricultural Fund for Rural Development can be accessed. This is an important source of funding for *Better Woodlands for Wales* and other support for the forestry sector via a range of schemes to enable small forestry businesses to access grants to aid their development. The Welsh Assembly's Strategic Approach to the Plan was issued for consultation in December 2005 following input from our Policy Team to ensure that forestry was included in each Axes and in particular Axes 1 and 2 covering support for forestry businesses and woodland management grants. We were then involved in more detailed discussion around the shape of potential schemes that were published in the draft Plan issued for consultation in the spring of 2006.

During this year our staff have been fully engaged in developing targets and methods of monitoring progress in readiness for its submission to Assembly Ministers and the European Union for approval. Subject to the approval of Assembly Ministers and the final allocation of the overall budget for the Plan we anticipate that Axis 1 will contain a range of schemes open to small scale (below ten employees) forestry businesses to assist them in such areas as adding value to wood products; branding and marketing; increasing the efficiency of the supply chain and investment in capital equipment. As part of Axis 2, *Improving the Environment and Countryside*, support for *Better Woodlands for Wales* will cover new planting and woodland improvement grants. We will also be a partner in an expanded Farming Advisory Service providing initial advice to farmers on woodland management activities, including marketing small quantities of timber and health & safety when carrying out forest operations.

Paying Agency

We have been working with colleagues from the Rural Payments Division [RPD] of the Department of Environment, Planning and the Countryside to agree the detail of the paying agency arrangements for forestry grants. A Section 41 arrangement under the provisions of the Government of Wales Act has been drafted to set out the way we will work with RPD in their role as Paying Agency for Wales. The implications of some of the implementing regulations are still not clear but there are at least a dozen workstreams associated with the introduction of tighter controls. The aim has been to minimise the administrative burden upon applicants and that by agreeing protocols, delegating responsibilities and sharing information, we and RPD can minimise the impact.

Cyd Coed

In October 2006, the Cyd Coed programme approved its final project applications, which means that our grant for Phase II has been totally committed. The grant provides 100% support to community groups throughout the Objective 1 area who are pursuing projects that use woodlands for community development. Through the remainder of the year, the team has focused on working with the community groups to ensure that their projects deliver all the potential benefits. We have had several Ministerial visits to projects, including the visit of Carwyn Jones AM to the launch of the Aberkenfig community woodland. All of the communities with whom we work continue to attract high profile interest. We have commissioned an evaluation of the Cyd Coed phase I and II projects, which will give a valuable insight into the value and achievements of the programme. We are also exploring the possibility of extending the work through schemes such as convergence funding.

Wood Energy Business Scheme (WEBS)

The result of a steady rate of applications during the year means that effectively WEBS has allocated the available budget in the Objective 1 area and we are unlikely to be offering grants on any new projects that come in. A number of large applications have been processed including the Bluestone wood heating scheme in Pembrokeshire and the pellet production facility at Clifford Jones Timber in Ruthin. We hope to work with the Welsh Assembly Government's Energy Wales and Wales European Funding Office to develop a new round of funding for wood energy projects in Wales from 2008 onwards.

Reclaiming our Forgotten Inheritance (ROFI)

The ROFI Project, which has been established to begin restoration across more than 5000 hectares of ancient woodlands in Wales that have been planted with conifers in the past, has moved into the delivery phase during the year. The Objective 1 funding has paid for forest operations aimed at initiating or continuing restoration undertaken in Assembly woodlands across Carmarthenshire, Merthyr Tydfil and Pembrokeshire so far.

Wales Forest Business Partnership

This business led Partnership has had a good year with an action focused Leadership Group and effective Chairmanship by Kevin Lydon. The Leadership Group identified a Knowledge Hub, *WoodKnowledge Wales*, for the Welsh Timber industry as a priority, taking a lead from the timber businesses in Wales, as reported in the recommendations in the Jaakko Poyry report: '*Welsh forest industry – mapping and benchmarking the forest industry*'. This Hub will help companies in Wales obtain information on best practice operations and innovations. It will also help businesses with 'hands on' development of new products, as well as delivering research projects that the industry requires and will initially comprise of two project officers who will be located at the University of Wales, School of Environment and Natural Resources and at the Building Research Establishment Wales, Port Talbot.

The Partnership has also established a Marketing Hub, *WoodSource Wales*. This has been created to address the problem of poor marketing of Welsh timber based products. A range of promotional activity will be the focus based on a suite of initiatives that will enable the industry to be professionally marketed. The Marketing Hub produced its first pilot brochure during the year entitled: '*WoodSource Wales – a guide to Architectural Wood Products from Wales*'.

Both Hubs were officially launched in Cardiff in February 2007.

GATE and the use of timber in construction

Our Gaining Added-value from Timber in Europe (GATE) project has continued and we have sought to integrate some of the activities into our broader programmes in this area. These fall into three categories; showcasing, knowledge sharing and influencing.

Showcasing the use of timber in construction

- The Nant yr Arian Visitor Centre, opened in 2005.
- Coed y Brenin Visitor Centre, opened in 2007. A series of events was organised around this facility to maximise publicity about the use of timber.
- Refurbishment of the Coed y Gororau and Coed y Mynydd Offices. Timber frame double glazing was specified and installed.
- Ongoing refurbishment of the Garwnant Visitor Centre – Merthyr Tydfil.

Knowledge sharing

- We have aligned the actions of the GATE project to the work of the timber sector in Wales, bringing architects, builders, timber processors and academics together to learn from our European partners.
- We are a partner in the Wales based Greener Homes & Buildings project, along with the Welsh Assembly Government, Department of Enterprise, Innovation and Networks, Association for Environmentally Conscious Builders and the Centre for Alternative Technology.
- We have established and guided the development of the Wales Forest Business Partnership. This industry-led group has developed *WoodKnowledge Wales* and *WoodSource Wales*.

Influencing

- We have worked with BRE to develop a "Sustainable Design and Construction Assessment Framework for Affordable Housing on FC Wales Land". This document identifies how developers can specify local goods and services, with specific reference to timber for use in construction projects, and remain compliant with current EU procurement guidance.
- We also worked with BRE to promote the use of timber, including Welsh Structural Grades, in a wider suite of Sustainable Building Initiatives.

- We are working with BRE to influence the Welsh Assembly to ensure that the new National Assembly building in Aberystwyth meets the BRE Environmental Assessment Method (BREEAM) 'excellent' standard for environmental performance, by making it a contract requirement.
- We are working with Coed Cymru and CCW to look at increasing the durability of timber for construction using heat treatment methods and acetylation - a process which uses naturally occurring acetic acid to modify the molecular structure of the wood.

Robinwood

During the year all of the Wales based sub-projects for this Interreg IIIc programme were approved and began in October. These projects have a budget of 280K euros for Welsh-based research covering a wide range of topics including woodfuel and timber utilisation. All projects are linked to at least one international partner, so helping to ensure cross-referencing of ideas and knowledge transfer opportunities.

We also held the Wales based International Conference of Robinwood between 14 and 16 February 2007. More than 150 delegates attended the event held at Llandudno. The conference was a mixture of presentations, workshops and field events to see local North Wales examples of issues relevant to the Programme.

Visitor centres

The Nant Yr Arian Visitor Centre, which was opened in 2005, won a number of awards during the year. Firstly it beat 16 short-listed finalists in the public sector category to win the Wales Business and Sustainability Award for Waste Management. As a result the centre was entered for the European Business Awards for the Environment. In addition, Ceredig and Janet Morgan who operate the Café and retail business at the centre, won the 2006 Ceredigion Business of the Year Award in the Tourism category.

Also during the year, we opened our new Visitor Centre at Coed y Brenin. Although the centre was open to the public from late summer 2006, our Minister Carwyn Jones AM, officially opened it in March 2007. By this time the centre had already built a sound customer base with the established mountain bike audience appearing to appreciate the reconfigured trails. Most pleasingly though Coed y Brenin has begun to attract a broader range of customers, attracted by the experience of the centre itself including the well used children's play area and varied way marked walks.

Long-term timber contracts

During October, an independent panel evaluated 33 submissions from customers interested in bidding for a long-term timber supply contract (LTC) with us. These submissions were the preliminary stage of a two-stage process similar to that used in the Wind Farm Programme tender. The panel passed 22 customers through to the next stage where they have been invited to tender for up to 18 LTC lots. The total volume of timber offered is 92,000 cubic metres for the first year. Over the full term of these contracts this will represent 520,663 cubic metres. An independent panel considered the bids at the end of March 2007 with a view to awarding contracts in early 2007/08.

National Customer Service Centre and Voice over Internet Protocol (VoIP)

We decided to embrace the emerging VoIP technology afforded us by the corporate contract with Global Crossing, the FC's provider of communications infrastructure. In essence, the technology allows telephone calls to run over the network that we use for data transfer between PC's rather than onto the BT network, which of course costs us money.

Our Coed y Cymoedd forest district office was the first FC site in GB to have the technology installed. Further offices have gone 'live' during the year and by early 2007/08 all our offices will be benefiting from VoIP. The technology also provides a platform for full integration with our email system (with the ability to dial out from the corporate email addresses) and other emerging technologies in the area of mobile communications that will all lead to improved efficiencies. We have also integrated the new system into

the National Customer Services Centre, which is now handling 90% of all incoming calls for FC Wales without any of the usual annoying menu driven processes.

Transfer of Forest Holidays business to public private partnership

The Forestry Commission has undertaken a challenging and complex public private partnership (PPP) competitive process in order to find the most suitable partner to develop and expand its Forest Holidays business. In May 2006, the Forestry Commission entered into a partnership with the Camping and Caravanning Club to take over management of Forest Holidays. The Partnership will provide funding for modernisation and expansion of the business together with the necessary skills and vision to grow the business. This includes investment in the existing campsite and cabin rental businesses, as well as in two new markets – lodge rental and lodge property sales.

KEY PERFORMANCE INDICATORS – PERFORMANCE AGAINST OUR TARGETS - 2006/07

These targets were ratified by the National Committee for Wales in January 2006 and are structured around the themes within our Corporate Plan. Performance against the targets has been categorised as follows:

Achieved – All targets met or exceeded

Partially Achieved – Some of the targets met and others that have been missed narrowly or where there are sound external factors for partial success

Not achieved – Targets not met or failure to report on performance

| Work Area | Key Performance Indicator (KPI) | Target | Result |
|-------------------------------|---|------------------------------|---------------------------------------|
| Sustainably managed woodlands | KPI 1 – UKWAS Certification of Woodlands | Retain certification | Achieved |
| | KPI 2 – Landbank at year end on the Assembly woodland estate | <3.5 years | Achieved |
| | KPI 3 – Number of cases of significant non-compliance with approved design plans on the Assembly Woodland estate | Zero incidences | Achieved |
| | KPI 4 – Area of woodland under approved grant schemes | Maintain at 50,000ha | Achieved |
| | KPI 5 – Area of Assembly estate woodland that has been thinned during the year - | 4000ha | Partially achieved – 3860ha achieved. |
| | KPI 6 – Percentage of Assembly estate woodland identified for management by Lower Impact Silvicultural Systems (LISS) | Maintain at least 33% figure | Achieved |

| Work Area | Key Performance Indicator (KPI) | Target | Result |
|--|---|--|---|
| Woodlands supporting effective and durable communities | KPI 7 – Area of Assembly estate woodland with approved Forest Design Plans | 100% | Partially Achieved. All plans submitted but not all approved by G&L by year end |
| | KPI 8 – Percentage of Scheduled Ancient Monuments on the Assembly estate that have approved management plans | 100% | Achieved |
| | KPI 9 – Number of community management agreements on the Assembly woodland estate | Reporting Purposes Only | |
| | KPI 10 – Number of detailed project plans developed with local authorities for affordable rural housing | Two sites with at least five housing units | Partially Achieved. Two sites have been progressed to an advanced stage. |
| Woodlands making a positive contribution to the Welsh economy | KPI 11 – Total timber volume harvested from the Assembly Woodland Estate | Three separate but interlinked targets | Achieved |
| | KPI 12 – Production forecast volumes from the Assembly estate for next 10 years versus published target sales volumes | 100% | Achieved |
| Woodlands contributing to more healthy & resilient environment | KPI 13 – Percentage of Sites of Special Scientific Interest (SSSI) on the Assembly estate with approved management plans | 100% Approval | Not Achieved – All plans submitted to CCW and waiting approval, with one exception. |
| | KPI 14 – Percentage of Plantation on Ancient Woodland sites (PAWS) on the Assembly estate that have been identified for restoration | Reporting Purposes Only | |

| Work Area | Key Performance Indicator (KPI) | Target | Result |
|---|---|--|---|
| Woodlands contributing to more healthy & resilient environment (cont) | KPI 15 – Number of wind farm option agreements signed with developers | All Options Agreements to have been signed | Not Achieved – tender timetable lengthened for a number of reasons |
| | KPI 16 – Percentage of cases of alleged illegal felling that are investigated by G&L. The number and percentage success rate of the cases taken to court | 100% of all cases to be investigated | Achieved |
| | KPI 17 – Number of Environmental Impact Assessment (EIA) determinations that required an Environmental Statement to be prepared, and the percentage where EIA stop notices and reinstatement orders were issued | Reporting Purposes Only | |
| Effective and efficient customer focused delivery | KPI 18 - Timber Customer Charter | Meet Citizens Charter Targets | Achieved |
| | KPI 19 – Woodland Grant Scheme Applicants Charter | Meet Charter Targets | Not Achieved |
| | KPI 20 – Charter Standard Statement for Felling Licensing | Acknowledge 100% of felling licence applications | Not Achieved – only 99%, however linked target of 90% for processing exceeded |
| | KPI 21 – Percentage customer queries to Customer Contact Centre that are resolved on first contact | 60% | Not achieved – Change of business strategy during the year |
| | KPI 22 – Percentage of FOI/EIR requests that are closed out within statutory deadline. | Within 20 working days | Partially achieved |
| | KPI 23 – Customer satisfaction at key recreation sites on the Assembly woodland estate | Reporting Purposes Only | |
| | KPI 24 – Investors in People Accreditation | Maintain Accreditation | Achieved |

| Work Area | Key Performance Indicator (KPI) | Target | Result |
|--|---|---|---------------|
| Effective and efficient customer focused delivery (cont) | KPI 25 – Staff absence days per staff year | Less than eight days per staff member per annum | Achieved |
| | KPI 26 – Staff accident rate | Zero | Not achieved |
| | KPI 27 – Outturn compared to budget | See Accounts | Achieved |
| | KPI 28 – Welsh Assembly Government funding | See Accounts | Achieved |
| | KPI 29 – Grant spend as a proportion of our grants budget | Achieve 5% spend | Achieved |
| | KPI 30 – Number of incidents relating to public liabilities resulting in personal injury on the Assembly Estate | Zero | Achieved |

INTERNAL AUDIT CERTIFICATE OF AUDIT ASSURANCE

The Forestry Commission's Internal Audit unit has reviewed the data sources for the published KPI's and is content that these provide a sound basis on which to formally validate the KPI's shown. It is intended that formal validation of the achievement of FC Wales KPI's will be undertaken by Internal Audit from 2007/08 onwards.

Liz Holmes
Head of Internal Audit
05 July 2007

CORPORATE SOCIAL RESPONSIBILITY

Sustainable Development

- **Environmental Sustainability**

All our woodlands are independently certified as sustainable through UKWAS. However, UKWAS does not address the sustainable management of our 'back office functions'. These functions include building construction, waste management, water and energy use, travel and transport.

The Commission's *Greenerways* project is about how we manage our sustainable development commitments in terms of our forests, staff and places of work. It aims to set up a network of local *Greenerways* champions to help highlight environmental issues in the workplace; establish baseline data on energy consumption, and travel and transport; and draft an environmental management system.

We started work on an Environmental Management System to be accredited under BS8555. We expect to apply for stage 2 accreditation in 2007 and then to progress in stages to the highest level. Details of the programme and the Department's environmental policy can be found at <http://www.forestry.gov.uk/forestry/INFD-6Z2JZM>

- **Climate Change**

In November, a conference, entitled 'Forestry: A Sectoral Response to Climate Change', was hosted by the Organisation for Economic Co-operation and Development (OECD) and organised by Forest Research at the Foreign Office's Wilton Park conference centre in West Sussex. Attended by the UK Government's Climate Change Minister, Ian Pearson, and Forestry Commission Chairman, Lord Clark, the conference brought together leading forestry scientists and policymakers from around the world to discuss the role of deforestation in climate change.

Climate change is the greatest challenge facing the world today. Forests in Britain have a role to play and the work of the Forestry Commission makes a difference. Details about what the Commission is doing for climate change can be found on our website at <http://www.forestry.gov.uk/forestry/infd-6umkar>.

- **Social Sustainability**

We are also undertaking social research to provide guidance on how Forestry Commission Wales can promote diversity and ensure that its policies and activities make a positive contribution to diversity throughout the sector.

Partnerships and communities

Listening to and working with local people, national stakeholders and urban and rural communities is an essential part of Forestry Commission Wales. All public forests in Wales have a forest design plan which is reviewed every five years. Our staff carry out local area consultations on each of these plans to provide opportunities for communities to have their say in the management of woods close to where they live.

Much of the work carried out by Forestry Commission Wales would not be possible without effective partnerships at local, national and international level.

STAFF

Employment policies

We value and respect all employees, recognising that each person is different and everyone's contribution is important. We value diversity in our workforce and our employment policies seek to ensure that in all aspects of our business we do not discriminate against anyone on grounds of their age, gender, ethnic origin, disability, nationality, sexual orientation, marital status or religious beliefs. We currently monitor the black and ethnic applicants and those who self declare a disability; who we invite for interview and those we ultimately employ.

Our employment policy seeks to extend opportunities for flexible working as far as possible within reasonable limits set by the operational needs of the business, including offering a range of options for organising working time, whether it be the hours worked, the number of days attended or the location of the work.

We attach great importance to listening to the views of employees, for example by organising a bi-annual Employee Opinion Survey, and those of the recognised trade union representatives, through regular meetings of the FC Staff Council. We keep our employees informed about our business through a wide range of communications channels, including our quarterly newspaper, fortnightly bulletin and several topic-specific newsletters, such as HR News.

People Initiatives

A number of initiatives have occurred during the year. We have developed a new Human Resource (HR) Strategy and Action Plan, which will guide future development of our employment policies, procedures and systems. We introduced a new Graduate Development programme which aims to identify and recruit people with potential and develop the leaders of the future. We published a Disability Equality Scheme describing our approach to ensuring that the needs of the disabled are given due regard in all aspects of our work. We introduced a new flexible benefits scheme, enabling employees to select from a range of benefits, depending on their particular needs.

Learning and Development

Our Learning and Development service (L&D) has been re-organised to increase the effectiveness of the services provision while being more efficient with current resources. As well as continuing to deliver core traditional products, L&D has been aiming to find the right solution to fill the skills or knowledge gap, clarifying training course ownership, reducing waiting times and further involvement in new initiatives.

Effective communication has been essential in achieving goals. Firstly, in Autumn 2006 the L&D team was involved in visiting managers with the aim of understanding current and future development needs and creating delivery programmes to meet these needs. Secondly, the new "Yourself" system, which allows staff to access their own HR information, was launched on 1 February 2007. This software enables staff to search, choose and purchase training immediately on line.

Since 1 April 2006 all training course administration has been handled by two new Learning Co-ordinators. Development Advisor posts were filled in early 2007 to support organisational and personal development. To free up L&D time to enable new initiatives for staff, further outsourcing has been implemented. Often this resource is more cost effective and it can deal with peaks and troughs of staff needs. Outsourcing can also have the benefit of bringing external expertise into the Forestry Commission.

Throughout the year, L&D has been aiming to be proactive in supporting the needs of the organisation. Some examples of delivery in 2006-07 include:

- Closer integration of learning with Operational Guidance development.
- Lead involvement in the creation of competency framework.
- Pilot of 360-degree feedback.
- New development and delivery of a number of training initiatives including: Suite of Project Management training, Arc 9, GPS, Greenerways, Ranger induction, Mountain Biking at work.
- Delivery of three Safety and Health Awareness days for Health and Safety Executive, further events planned for 2007-08.

Health and safety

Policy

It is our policy to ensure the health and safety of all our employees, and to provide appropriately for the health and safety of others, including contractors, visitors, neighbours and members of the public who use the Assembly woodlands.

Programmes

During the year the Safety, Health & Environment team carried out Health and Safety Chemical Support Visits to Forest Districts in Wales. Next year we plan to contribute to a project to improve the way we manage vibration and noise.

LEADERSHIP AND GOVERNANCE

Ministers

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

| | |
|--------------------|---|
| Carwyn Jones AM | Minister for Environment, Planning and Countryside |
| Tamsin Dunwoody AM | Deputy Minister for Environment, Planning and Countryside |

Forestry Commissioners and Permanent Head of the Department

The Board of Commissioners gives strategic direction to the Forestry Commission and takes decisions on not-devolved or co-ordinated functions. It has a part time non-executive Chairman, Rt Hon Lord Clark of Windermere, and the Director General, Tim Rollinson, as Permanent Head of the Department, acts as Deputy Chairman. Commissioners who served during the year are available in the Great Britain/England Annual Report and Accounts.

National Committee for Wales

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. The Committee met seven times during the year in April, May, July, September, November, January and March. A full record of papers and minutes can be found on the website.

Members of the National Committee during the year were:

| | |
|-------------------------|--|
| Gareth Wardell | Chair and Non-executive Commissioner for Wales (until 17 January 2007) |
| Jon Owen Jones | Chair and Non-executive Commissioner for Wales (from 18 January 2007) |
| Anthony Bosanquet | Non-executive Commissioner for Wales (until 17 January 2007) |
| Judith Webb | Non-executive Commissioner for Wales (from 18 January 2007) |
| Gareth Jones OBE | Director of Environment, Planning and Countryside – Welsh Assembly Government |
| Professor John Good OBE | Chair, Woodland Strategy Advisory Panel (until 31 December 2006) |
| Dr Roger Cooper | Chair, Woodland Strategy Advisory Panel (from 1 January 2007) |
| Geraint George | Director of Postgraduate Diploma/Masters in Countryside Management, Bangor University (Re-appointed from 1 October 2006) |
| Ian Forshaw | Director, Forestry Commission Wales and Executive Commissioner |
| Trefor Owen | Head of Estate Management, Forestry Commission Wales |
| Jon Westlake | Head of Quality Assurance and Corporate Improvement, Forestry Commission Wales |

Forestry Commission Wales Management Board

The Forestry Commission Wales Management Board was established as a monitoring and decision-making forum, maintaining an overview of the business systems and administrative arrangements underpinning the functioning of Forestry Commission Wales and its relationship with stakeholders. The Board met nine times during the year and the agendas and minutes of meetings are published on the website.

Members during the year were:

| | |
|---------------|---|
| Ian Forshaw | Chair, Director, Forestry Commission Wales & Executive Commissioner |
| Chris Edwards | Head of Policy & Programmes (from 9 May 2006) |
| Peter Garson | Head of Grants & Licences |
| Ruth Jenkins | Head of Policy & Programmes (until 8 May 2006) |
| Clare Lewis | Human Resources Business Partner (from 20 November 2006) |
| Trefor Owen | Head of Estate Management |
| Colin Sobota | Head of Human Resources - FC Wales (until 19 November 2006) |
| Derek Stephen | Head of Finance & ICT |
| Clive Thomas | Head of Secretariat & Communications |
| Jon Westlake | Head of Quality Assurance & Corporate Improvement |

A register of interests is maintained and can be accessed on the Forestry Commission website (www.forestry.gov.uk).

Woodland Strategy Advisory Panel

This panel which has the purpose **‘To act as an Advisory Panel to both Ministers and Forestry Commissioners on the implementation of the Wales Woodland Strategy and its periodic reviews’** was re-appointed for a five year term from 1 January 2007. Although the Panel is voluntary, the appointment process followed the advice for full public appointments including press advertising.

Membership as at 31 March 2007:

| | | |
|-------------------------|-------------------|-----------------------|
| Dr Roger Cooper – Chair | David Hughes | Phil Morgan |
| Nigel Ajax-Lewis | Chris Inglis | Professor Colin Price |
| Alex Brownlie | David Jenkins | Gareth Price |
| Dr John Edington | John Lloyd-Jones | Dr Tim Stowe |
| Helena Fox | Tim Kirk | Celia Thomas |
| Rory Francis | Bernard Llewellyn | Bob Vaughan |
| Dr Alun Gee | Hilary Miller | |

The Panel met three times during the year in July, October and March. The work of the Panel was dominated during the year in the provision of advice on the ongoing refreshing of *Woodlands for Wales*. An additional dedicated session was arranged in September to help with the review.

Audit and Risk Committee

Following a review of the effectiveness of existing Audit Committee arrangements across the Forestry Commission, a revised structure, reflecting the needs of each country, was put in place during 2006-07. In Wales, the National Committee has established an Audit and Risk Committee (ARC) as a sub-committee to support them in their responsibilities for the effective management of risk, control and governance. Through its work the ARC provides independent assurance to the National Committee on these key activities which support the achievement of country objectives. The ARC operates in accordance with the principles contained in the Treasury's Audit Committee Handbook. The members of the ARC for Wales are Judith Webb (Chair) and Geraint George. Further information on the responsibilities and work of the Audit Committee during the year is provided in the Statement on Internal Control (SIC).

Corporate Governance

The Statement on Internal Control (SIC) provides a summary of the way in which Forestry Commission Wales manages its Governance and Internal Control. Forestry Commission Wales has applied the principles of the Treasury's Code of Good Practice for Corporate Governance in the context of its own circumstances.

Principal risks, uncertainties and opportunities

Forestry Commission Wales has identified the following principal risks, uncertainties and opportunities in achieving its aims and objectives:

The Windfarm Project has its own detailed Risk Register that is subject to regular scrutiny by both the FCWMB and the FCWNC. Whilst we are well through the process this will remain as a high risk until all Development Option Agreements are formalised and any possible challenges are timed out.

Contingency planning is being addressed by the GB Risk Management Group that has established the model. FC Wales is now undertaking a pilot exercise at Coed y Cymoedd FD utilising the skills of our external risk expert to produce a draft Business Continuity Plan for a Forest District. Should this prove successful the GBRMG will then decide the best means to roll this out across the three countries. This will remain high until we see BCP's being delivered which will be during FY07/08.

Staff retention and recruitment has been addressed by the production of the FC Wales Staffing Plan. This will remain high until significant elements of the Plan are delivered.

Risk Management Policy

The Risk Management Policy of Forestry Commission Wales is to be fully committed to effective Risk Management, adopting best practice in the identification, evaluation and control of risks, in order to:

- Integrate risk management into the culture of Forestry Commission Wales
- Eliminate or reduce risks to an acceptable level
- Anticipate and respond to changing social, environmental and legislative requirements
- Prevent injury and damage and reduce the cost of risk
- Raise awareness of the need for risk management

By adopting its Risk Management Policy, Forestry Commission Wales recognises risk management as a key function in helping to ensure it achieves its aims and objectives.

APPENDICES

Appendix 1 – Woodland Grant Scheme and Felling Licence Statistics

Table 1 – Grant and Felling Licence applications and Applicants Charter Performance during 2006/07

| | | 2006/07 | 2005/06 | 2004/05 |
|-------------------------------------|-----------------------------|----------------|----------------|----------------|
| WGS Applications | Number received | 185* | 343 | 413 |
| | Acknowledged within 3 days | 176 | 334 (97%) | 380 (92%) |
| | Processed in under 11 weeks | 93 | 213 (62%) | 182 (44%) |
| Felling Licence Applications | Number received | 318 | 251 | 193 |
| | Acknowledged within 3 days | 315 (99%) | 237 (97%) | 174 (90%) |
| | Processed in under 10 weeks | 311 (98%) | 157 (62%) | 113 (59%) |
| Grant Claims | Number received | 1174 | 1192 | 1498 |
| | Paid in under 28 days | 808 (69%) | 1035 (87%) | 1139 (76%) |

* No new WGS applications after 31 August 2006 as *Better Woodlands for Wales* came on stream

Table 2 – Area of planting and associated grants paid during 2006/07

| Year | Conifer | Broadleaved | Total |
|-------------|----------------|--------------------|-----------------|
| 2006/07 | 37ha (£31K) | 382ha (£855K) | 419ha (£886K) |
| 2005/06 | 7ha (£31K) | 441ha (£1,081K) | 448ha (£1,112K) |
| 2004/05 | 13ha (£66K) | 521ha (£1,406K) | 534ha (£1,472K) |
| 2003/04 | 26ha (£69K) | 443ha (£1,084K) | 469ha (£1,153K) |
| 2002/03 | 41ha (£39K) | 281ha (£574K) | 322ha (£613K) |

These figures include challenge funded planting.

Table 3 – Area of challenge funded planting paid during 2006/07

| Year | Native woodland expansion | New woodlands for quality timber |
|-------------|----------------------------------|---|
| 2006/07 | 216ha | 16ha |
| 2005/06 | 178ha | 60ha |
| 2004/05 | 161 ha | 118 ha |
| 2003/04 | 154 ha | 76 ha |
| 2002/03 | 11 ha | 0 ha |

Table 4 - Area of restocking and associated grants paid during 2006/07

| Year | Conifer | Broadleaved | Total |
|-------------|----------------|--------------------|---------------|
| 2006/07 | 667ha (£354K) | 248ha (£281K) | 915ha (£634K) |
| 2005/06 | 508ha (£284K) | 214ha (£233K) | 722ha (£517K) |
| 2004/05 | 353ha (£228K) | 285ha (£304K) | 638ha (£532K) |
| 2003/04 | 221ha (£107K) | 168ha (£147K) | 389ha (£254K) |
| 2002/03 | 493ha (£208K) | 166ha (£135K) | 659ha (£343K) |

Table 5 - Analysis of action in relation to alleged illegal felling during 2006/07

| Description | Cases | Timber volume (m³) | Area (ha) |
|--------------------------|--------------|--------------------------------------|------------------|
| Reported | 74 | Not applicable | Not applicable |
| Investigated by FC Wales | 74 | Not applicable | Not applicable |
| Warning Letter sent | 26 | Not applicable | Not applicable |

Appendix 2 – National Forest Estate Statistics

Table 6 - Key statistics for the National Forest Estate

| | | 2006/07 | 2005/06 | 2004/05 | 2003/04 | 2002/03 | 2001/02 | 2000/01 |
|----------------------------------|-----------------------|---------|---------|---------|---------|---------|---------|---------|
| Total managed area | Thousand hectares | 124 | 125 | 126 | 125 | | | |
| Wooded land | Thousand hectares | 107 | 108 | 109 | 109 | | | |
| Disposals | Hectares | 524 | 239 | 8 | 11 | 57 | 399 | 1297 |
| | No. of Woods | 6 | 13 | 1 | 1 | 3 | 9 | 32 |
| Harvesting | | | | | | | | |
| Volume of clearfell | Thousand cubic metres | 559 | 549 | 655 | 874 | 939 | 825 | |
| Volume of thinning | Thousand cubic metres | 193 | 253 | 289 | 181 | 190 | 164 | |
| Area of thinning | Hundred hectares | 3859 | 5052 | 5773 | 3628 | 3814 | 2882 | |
| Standing sales | Thousand cubic metres | 416 | 500 | 468 | 502 | 475 | 590 | |
| Direct production | Thousand cubic metres | 336 | 302 | 476 | 554 | 655 | 399 | |
| TOTAL | Thousand cubic metres | 752 | 802 | 944 | 1056 | 1130 | 989 | |
| Planting | | | | | | | | |
| Area of new planting | Hectares | 0 | 0 | 0 | 0 | | | |
| Area of restocking after felling | Hectares | 1672 | 1620 | 1340 | 1395 | | | |

Appendix 3 – Key staff and customer statistics

Table 7 – Key staff statistics as at 31 March 2007

| Year | 2006/07 | 2005/06 | 2004/05 | 2003/04 |
|-------------------------|----------------|----------------|----------------|----------------|
| FC staff in Wales* | 376 | 392 | 415 | 434 |
| FC Wales staff numbers | 337 | 350 | 370 | 382 |
| Staff absence rate** | 4.9 | 7.9 | 8.6 | 8.3 |
| Welsh speaking staff*** | 110 | 106 | 113 | 119 |

* Includes Business units but excludes Forest Research

** Average days absence per staff member per year

*** Fluent speakers

Table 8 – Accident rate for employees and members of the public during 2005/06

| Year | No. of accidents per 100 employees | Accidents reported by members of the public | | |
|-------------|---|--|--------------|----|
| | | By type | Total | |
| 2006-2007 | 0.30 | Cycling | 86 | 97 |
| | | Slips & Trips | 1 | |
| | | Play Equipment | 1 | |
| | | Others | 8 | |
| | | Horses | 1 | |
| 2005-2006 | 0.86 | Cycling | 40 | 52 |
| | | Slips & Trips | 6 | |
| | | Play Equipment | 0 | |
| | | Other | 5 | |
| | | Horses | 1 | |
| 2004-2005 | 0.27 | Cycling | 18 | 27 |
| | | Slips & Trips | 1 | |
| | | Play Equipment | 0 | |
| | | Other | 6 | |
| | | Horses | 2 | |
| 2003-2004 | 1.31 | Cycling | 14 | 22 |
| | | Slips & Trips | 1 | |
| | | Play Equipment | 0 | |
| | | Other | 4 | |
| | | Horses | 3 | |

National Office as at 31 March 2007

| | |
|----------------|--|
| Ian Forshaw* | Director Wales |
| Trefor Owen* | Estate Management |
| Peter Garson* | Grants and Licences |
| Jon Westlake* | Corporate Improvement and Quality Assurance |
| Chris Edwards* | Policy and Programmes |
| Clare Lewis* | Human Resources |
| Derek Stephen* | Finance & ICT |
| Clive Thomas* | Secretariat and Communications |
| Terry O'Keefe | Assembly Liaison [located with Welsh Assembly Government, Cardiff] |
| Ian Shaw | Country Land Agent |

*Management Board members as at 31 March 2007

The board met nine times during the year in April, May, June, July, September, October, November, January and March.

Estate Management as at 31 March 2007

| | |
|--------------------|--------------------------|
| Rachel Chamberlain | FDM, Coed y Gororau |
| Ruth Jenkins | FDM, Coed y Mynydd |
| Dai Jones | FDM, Llanymyddfri |
| Antony Wallis | FDM, Coed y Cymoedd |
| Hugh Jones | Harvesting and Marketing |
| David Cross | Silvicultural Operations |
| Stephen Buckley | Social Forestry |
| John Browne | Forest Planning |

Grants and Licences as at 31 March 2007

| | |
|-----------------|--|
| Greg Vickers | Operations Manager |
| Richard Siddons | Business Manager |
| Rob Seymour | Programme Manager, Cydcoed |
| Mike Pitcher | Programme Manager, Wood Energy Business Scheme |



Comisiwn Coedwigaeth Cymru
Forestry Commission Wales

FORESTRY COMMISSION WALES

RESOURCE ACCOUNTS 2006-07

MANAGEMENT COMMENTARY

Basis of Accounts

The Forestry Commission Wales Resource 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.

Departmental Accounting Boundary

These accounts incorporate the core-department, Forestry Commission Wales.

Financial review

Forestry Commission Wales received net funding from Welsh Assembly Government of £30.7 million to manage its forest estate which delivers a wide range of public benefits and to grant aid to the private sector forestry in Wales.

Forestry Commission Wales timber sales generated £8.7 million income from a harvest of 752,000 cubic metres with other sources of income from forest based activities adding a further £3.5 million. Timber prices remained low whilst associated operational costs were impacted upon by the general increase in fuel costs and general inflation.

Forestry Commission Wales continued to be actively involved in EU funded projects and saw a level of Woodland Grant spend of over £3 million.

Significant variances against Estimate

£million

| | Estimate | Outturn | Difference |
|-----------------------------|-----------------|----------------|-------------------|
| Total resource | 30.7 | 29.1 | 1.6 |
| Net cash requirement | 23.6 | 23.4 | 0.2 |

The difference between estimate and net total resource outturn of £1.6 million is principally due to:

- Cost of Capital was below estimate by £2.9m due to the estimate recognising the need to provide contingency in view of the volatility of timber prices and the impact this has on the potential upward valuation of the forest estate.
- Strict control of staff numbers again resulted in salary savings of £0.2m.
- Additional operational income of £0.9m allowed for £0.4m investment in our roads infrastructure and accommodation of the initial £0.8m costs associated with the National Forest Estate Windfarm Programme.
- Additional income from sales of assets amounted to £0.5m and contributed to £1.3m additional investment in our Visitor Centre infrastructure programme and investment in replacement of harvesting machinery of £0.4m.

Forestry Commission Wales recorded an underspend of £0.2 million on actual cash outturn compared to estimate, which represents 0.8% on financing of £23.6 million.

Forest Holidays

In May 2006, the Forestry Commission entered into a partnership with the Camping and Caravanning Club to take over management of its Forest Holidays business. This has resulted in a change to the way in which Forestry Commission Wales will account for its interest in Forest Holidays, namely the Beddgelert Campsite. As the investment in the partnership is outside the departmental boundary and Forestry Commission Wales does not exercise in-year budgetary control over the partnership, then, in accordance with FReM 2.4, the investment will be treated as a fixed asset investment.

The net book value of Forestry Commission Wales' campsite land and buildings transferred to the partnership was £899,000. In return, Forestry Commission Wales received £932,000 comprising:

- a fixed asset investment valued at nil at 31 March 2007;
- as lessors of the sites to the partnership, Forestry Commission Wales will show a long term debtor balance on its balance sheet representing the net present value of the future rental payments over 75 years due by the partnership company totalling £647,000; and
- a long term long debtor of £285,000 with the capital and interest due to be repaid in five instalments commencing year end 31 March 2012.

The gain on disposal and increase in the value of the balance sheet was £33,000.

During 2006-07, no income was received from the investment in the partnership

Future Events

National Forest Estate Wind Farm Programme

The evaluation of the bids will be complete in early 2007/08. This will mean that recommendations can be made to the Welsh Assembly Government regarding the award of 'Options to Develop' the FC managed land that has been tendered. When this stage is reached then our role will be to manage the option agreements to ensure that developers deliver on their contractual commitments in the years to come.

Review of the Woodland Strategy

The review process that we have been implementing on behalf of the Minister will be complete in early 2007/08. The final draft of the Woodland Strategy, fully aligned to the Environment Strategy, will be presented to the Welsh Assembly Government and assuming it is approved then the implementation phase will begin. This will mean updating our Corporate Plan to ensure that where we have lead responsibility for delivery of Woodland strategy actions, these are prioritised. We aim to publish a new Corporate Plan for 2008/09 onwards during the year.

Rural Development Plan

This plan is likely to be agreed by the Welsh Assembly Government early in 2007/08. As all of the funding for *Better Woodlands for Wales* will be contained within the plan, including grants for new woodland creation, this approval will be an important milestone. It will mean that the future development of *Better Woodlands for Wales* can continue within the context of an agreed European funded mechanism and there will hopefully be a broader range of measures available to support woodland owners and small woodland-related businesses.

Long Term Timber Contracts

These will be awarded early in 2007/08 and will form a key element of our timber marketing strategy.

Externally Funded Projects

A number of key EU funded projects are due for completion during 2008. The Wood Energy Business Scheme and Cyd Coed have completion dates of June and September respectively. There will be significant management focus to ensure that these projects are completed to schedule and that the necessary accounting actions are fully discharged.

Other Disclosures

Research and Development

Forest Research, an executive agency of the Forestry Commission, is responsible for carrying out forest research and allied work. Although forestry is a devolved subject, Forest Research continues to be funded from Westminster. More information on the work of Forest Research can be found on the Forestry Commission website <http://www.forestry.gov.uk/research>.

Pensions

Information on pensions is contained in the Remuneration Report and accounting policy note 5

Supplier Payment Policy

Forestry Commission Wales 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 2006-07 indicates that 98.3% of invoices were paid within the due date.

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

Auditors

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

Disclosure of audit information to the auditors

So far as the Accounting Officer is aware, there is no relevant audit information of which the Forestry Commission Wales auditors are unaware. The Accounting Officer has taken all the steps that he ought to have taken to make him self aware of any relevant audit information and to establish that the Forestry Commission Wales auditors are aware of that information.

Ian Forshaw
Accounting Officer
05 July 2007

REMUNERATION REPORT

Remuneration policy

Fees for non-executive Commissioners are determined in accordance with guidelines prescribed by the Cabinet Office. The Forestry Commission's Senior Pay Committee comprises the Chairman, Director General, Director Scotland, Director England, and three other non-executive Commissioners. The Chairman and non-executive members determine the Director General's pay. The Chairman, Director General and non-executive Commissioners take decisions in respect of Country Directors. The entire committee takes decisions on the remaining senior staff posts.

In reaching its decisions on individuals' salary and bonus, the Senior Pay Committee has regard to the following considerations:

- Guidelines circulated by the Cabinet Office implementing Government decisions on the recommendations of the Senior Salaries Review Body (SSRB). The SSRB is responsible for monitoring the operation of the Senior Civil Service pay system and for making recommendations to the Government on the shape of the system, including the salary values for the minimum and maximum of each of the senior pay bands, the range of percentage increases to base salary and range of bonuses. Further information on the work of the SSRB can be found at www.ome.uk.com.
- Reporting Officers recommendations on the relative performance of each of their senior staff, whether a bonus should be paid and if so whether low or high. The Senior Pay Committee consider the recommendations, determine the allocation of senior staff to tranches, and decide the percentage increase to salary and any bonus to be awarded.

Remaining Committee and Board members receive annual salaries paid in accordance with the standard Forestry Commission Staff Pay Agreement negotiated through collective bargaining with the recognised Trade Unions. Their performance is monitored and reviewed through the Performance Monitoring System (PMS) of the Forestry Commission. Their increase in salary and performance bonus, if awarded, are based on their manager's assessment of their performance.

Employment contracts

Civil Service appointments are made in accordance with the Civil Service Commissioners' Recruitment code, which requires appointment to be on merit on the basis of fair and open competition but also includes the circumstances when appointments may otherwise be made.

Unless otherwise stated below, the senior staff covered in this report hold appointments which are open-ended until they reach the normal retiring age, with a maximum notice period of six months. Early termination, other than for misconduct, would result in the individual receiving compensation as set out in the Civil Service Compensation Scheme.

Non-executives are generally appointed for a fixed term of three years with a maximum notice period of 1 month. Contracts are renewable for further fixed terms if both parties agree. In the event of early termination, for whatever reason, there is no provision for compensation.

Details of the letters of appointment for the non-executive Commissioners and National Committee members who served during the year are:

| | Date of current contract/letter | Unexpired term (months*) |
|------------------------|--|---------------------------------|
| Jon Owen Jones | 18/1/2007 | 33.5 |
| Judith Webb | 18/1/2007 | 33.5 |
| Gareth Jones OBE | 1/10/2003 | - |
| Professor Roger Cooper | 1/1/2007 | 21 |
| Geraint George | 1/10/2006 | 30 |

Salary and pension entitlements *

The salary and pension entitlements of National Committee and Management Board members were as follows:

| | 2006-07 | | 2005-06 | |
|---------------|--------------------|-----------------------|--------------------|-----------------------|
| | Salary | Benefits in kind | Salary | Benefits in kind |
| | £000 | to nearest £100 | £000 | to nearest £100 |
| Ian Forshaw | 80-85 | 800 | 65-70 ¹ | 200 |
| Jon Westlake | 50-55 | 1,400 | 45-50 | 1,100 |
| Trefor Owen | 50-55 | - | 50-55 | - |
| Derek Stephen | 40-45 | - | 40-45 | - |
| Colin Sobota | 25-30 ² | 400 | 40-45 | 1,000 |
| Clare Lewis | 10-15 ³ | - | - | - |
| Peter Garson | 40-45 | - | 40-45 | - |
| Clive Thomas | 45-50 | 1,200 | 45-50 | 2,100 |
| Ruth Jenkins | 40-45 | - | 35-40 | - |
| Chris Edwards | 40-45 ⁴ | - | - | - |

Salary

'Salary' includes basic salary; performance pay or bonus; overtime and any allowances subject to UK taxation. This report is based on payments made by Forestry Commission Wales and thus recorded in these accounts.

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. Benefits in kind are given in the form of the private use of a car and house purchase loans.

Pension benefits *

| | Accrued pension at age 60 at 31 March 2007 and related lump sum £000 | Real increase in pension and related lump sum at age 60 £000 | CETV at 31 March 2007 £000 | CETV at 31 March 2006 £000 | Real increase in CETV £000 | Employer contribution to partnership pension account Nearest £100 |
|---------------|---|---|-------------------------------|-------------------------------|-------------------------------|--|
| Ian Forshaw | 25-30 plus LS of 80-85 | 0-2.5 plus LS of 5.0-7.5 | 508 | 466 | 28 | - |
| Jon Westlake | 15-20 plus LS of 50-55 | 0-2.5 plus LS of 0-2.5 | 319 | 298 | 13 | - |
| Trefor Owen | 15-20 plus LS of 0-5 | 0-2.5 plus LS of 0-2.5 | 206 | 191 | 11 | - |
| Derek Stephen | 10-15 plus LS of 40-45 | 0-2.5 plus LS of 0-2.5 | 240 | 223 | 11 | - |
| Colin Sobota | 10-15 plus LS of 35-40 | 0-2.5 plus LS of 0-2.5 | 227 | 211 | 10 | - |
| Clare Lewis | 5-10 plus LS | 0-2.5 plus | 74 | 60 | 14 | - |

¹ Figure quoted is for the period 9 May 2005 to 31 March 2006. The full year equivalent is 70-75.

² Figure quoted is for the period 1 April 2006 to 19 November 2006. The full year equivalent is 40-45.

³ Figure quoted is for the period 20 November 2006 to 30 April 2007. The full year equivalent is 35-40. The costs are borne by Forestry Commission Great Britain.

⁴ Figure quoted is for the period 9 May 2006 to 30 April 2007. The full year equivalent is 45-50.

| | | | | | | |
|---------------|------------------------|------------------------|-----|-----|----|---|
| | of 15-20 | LS of 2.5-5.0 | | | | |
| Peter Garson | 5-10 plus LS of 25-30 | 0-2.5 plus LS of 0-2.5 | 126 | 117 | 8 | - |
| Clive Thomas | 5-10 plus LS of 20-25 | 0-2.5 plus LS of 0-2.5 | 96 | 87 | 7 | - |
| Ruth Jenkins | 5-10 plus LS of 25-30 | 0-2.5 plus LS of 0-2.5 | 128 | 119 | 7 | - |
| Chris Edwards | 15-20 plus LS of 55-60 | 0-2.5 plus LS of 0-2.5 | 403 | 377 | 13 | - |

Civil Service Pensions

Pension benefits are provided through the Civil Service Pension arrangements. From 1 October 2002, civil servants may be in one of three statutory based 'final salary' defined benefit schemes (classic, premium, and classic plus). The schemes are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under classic, premium, and classic plus are increased annually in line with changes in the Retail Prices 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 per 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 make contributions, 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).

The accrued pension quoted is the pension the member is entitled to receive when they reach 60, or immediately on ceasing to be an active member of the scheme if they are already 60.

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

Cash Equivalent Transfer Values

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 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 Civil Service pension arrangements and for which the Cabinet Office's Civil Superannuation Vote has received a transfer payment commensurate with 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.

Real increase in CETV

This reflects the increase in CETV effectively funded by the employer. It does not include 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.

Remuneration of Non-Executives

The non-executive Forestry Commissioners and members of the National Committee of Wales received the following remuneration for their services during the year ended 31 March 2007:

| | £000 |
|--|-------------|
| Gareth Jones OBE | - |
| Professor John Good OBE (until 31 December 2006) | 5 |
| Professor Roger Cooper (from 1 January 2007) | - |
| Geraint George | 4 |

The remuneration of Gareth Wardell, Jon Owen Jones, Anthony Bosanquet and Judith Webb, non-executive Forestry Commissioners and members of the National Committee for Wales, are borne and disclosed in the Forestry Commission Great Britain/England Annual Report and Accounts 2006-07.

* Information subject to audit

Ian Forshaw
Accounting Officer
05 July 2007

STATEMENT OF ACCOUNTING OFFICERS'S RESPONSIBILITIES

Under the Government of Wales Act 1998, HM Treasury has directed Forestry Commission Wales to prepare, for each financial year, resource accounts detailing the resources acquired, held or disposed of during the year and the use of resources by the department during the year. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of Forestry Commission Wales and of its net resource outturn, resources applied to objectives, recognised gains and losses and cash flows for the financial year.

In preparing the accounts, the Accounting Officer is required to comply with the requirements of the *Government Financial Reporting Manual* and in particular to:

- observe the Accounts Direction issued by the Treasury, 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 *Government Financial Reporting Manual* have been followed, and disclose and explain any material departures in the accounts ; and
- prepare the accounts on a going concern basis.

HM Treasury has designated Director, Forestry Commission Wales as the Accounting Officer for Forestry Commission Wales. The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding Forestry Commission Wales' assets, are set out in the Accounting Officers' Memorandum issued by the Treasury and published in Government Accounting.

STATEMENT ON INTERNAL CONTROL

1. Scope of responsibility

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of Forestry Commission Wales policies, aims and objectives, 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.

Forestry is a devolved matter although certain activities such as international affairs, plant health and forest research remain reserved by Westminster. The Minister for Environment, Planning and Countryside decides the policy and financial framework within which the Forestry Commission operates in Wales and is accountable to the Welsh Assembly Government for all matters concerning Forestry Commission Wales.

The Forestry Commissioners are statutorily responsible for the stewardship of the estate placed at their disposal by Ministers. The Forestry Commissioners have delegated to the statutory National Committee for Wales the normal exercise of their powers and duties in connection with the estate. The National Committee is chaired by a non-executive Forestry Commissioner and its members include a further non-executive Commissioner and a representative of the Department of Environment, Planning and Countryside.

The Director General is the Deputy Chairman of the Forestry Commissioners and the senior official in the Forestry Commission. In addition to his role as a Commissioner, he is the Principal Accounting Officer, formally responsible to Parliament for the financial affairs of the Forestry Commission.

The Director Wales is the executive Forestry Commissioner responsible to the Minister and to the Director General for the work of the Forestry Commission in Wales. The Director Wales is appointed Accounting Officer for Forestry Commission Wales and is a member of the National Committee for Wales. The exact responsibilities of the Director Wales are detailed in the letter of appointment but include responsibilities for Forestry Commission Wales' accounts and financial procedures, and for the proper, effective and efficient use of resources in pursuit of the agreed Corporate Plan objectives and targets.

The Director General and Director Wales are liable to be summoned to appear before the relevant Parliamentary Committee to answer for their financial responsibilities. It will be for Ministers to decide who should represent them at other Parliamentary Committee hearings.

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 Forestry Commission Wales 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 Forestry Commission Wales for the year ended 31 March 2007 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

3. Capacity to handle risk

Forestry Commission Wales has taken a positive approach to risk that it feels is entirely appropriate to its role and remit. Risk management is the responsibility of every member of staff in Forestry Commission Wales. Everyone has a role to play in managing risks and therefore understands and accepts responsibility for managing the risks within their own area of authority. Risk awareness and responsibility

lies in parallel with the structure of the Forestry Commission's objectives in Wales and at every level of objective there is an equivalent delegation of responsibility of associated risk.

The resources available for managing risk are finite and so the aim is to achieve an optimum response to risk, prioritised in accordance with the evaluation of risk. The system of internal control incorporates risk management. The system encompasses a number of elements that together facilitate an effective and efficient operation, enabling Forestry Commission Wales to respond to a variety of operational, financial and commercial risks. These elements include:

- Policies set by the National Committee for Wales and the Wales Management Board. Written procedures support the policies where appropriate.
- Comprehensive regular reporting to the National Committee and Management Board designed to monitor key risks and their controls. Decisions to rectify problems are made at their regular meetings.
- Planning and budgeting system used to set objectives, agree action plans and allocate resources. Progress towards meeting plan objectives is monitored regularly.

4. The risk and control framework

Forestry Commission Wales is committed to a process of continuous development and improvement: developing systems in response to any relevant reviews and developments in best practice in this area. In particular, in the period covering the year to 31 March 2007 and up to the signing of the accounts Forestry Commission Wales has:

- Implemented a computer based Risk Management System [Magique] to complement the set-up of a multi-level Risk Management Group (RMG) dealing with the management of risk and to ensure common standards when assessing risks. This has facilitated the development of a new risk register format incorporating assessments of inherent and residual risk and an enhanced scoring matrix. The group met on 6 February 2007
- Began a pilot exercise at Coed y Cymoedd FD utilising the skills of our external risk expert to produce a draft Business Continuity Plan. If successful FCW intends rolling this out to all offices during FY07/08. This issue will continue to remain assessed as High risk until we see BCP's being delivered.
- Commenced implementation of the FC Wales Staffing Plan that identifies staff group employment profiles and trends for the period 2006 – 2012.

Director Wales was provided with more detailed advice on the work of Internal Audit in particular, and control in general, via the newly established Audit and Risk Committee [ARC]. The ARC's objectives are to:

- review the comprehensiveness of assurances in meeting the assurance needs of the National Committee and Accounting Officer [AO] and to review the reliability and integrity of these assurances
- provide an opinion on how well the National Committee and AO are supported in decision making and in discharging their accountability obligations, particularly in respect of financial reporting.
- Assist the Head of Internal Audit in defining the scope of audit coverage and assessing priorities.

The ARC will also periodically review its own effectiveness and report the results of that review to the National Committee

5. Review of effectiveness

As 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 Forestry Commission Wales 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 Forestry Commission Wales Management Board, the Forestry Commission Audit & Risk Committee. A plan to address weaknesses and ensure continuous improvement of the system is in place.

The Head of Internal Audit has prepared an annual report and assurance statement to me as Accounting Officer. The report includes an overall assessment of the adequacy and effectiveness of risk management, control and governance within Forestry Commission Wales. The Director General, as Principal Accounting Officer, has received a similar report and assurance statement including any comments specific to the Great Britain core responsibilities. The overall opinion is that internal control within Forestry Commission Wales continues to provide substantial assurance that material risks to the achievement of operational objectives are identified and adequately managed.

6. Significant internal control problems

Internal Audit has awarded a Limited Assurance Opinion with regards to the existing control framework in respect of Timber Despatching. The Country Director has initiated steps to correct this and Internal Audit intend to review again as part of their programme of work for 2007/08 to confirm that controls are operating effectively.

Ian Forshaw
Accounting Officer
05 July 2007

Forestry Commission Wales

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 of Forestry Commission Wales for the year ended 31 March 2007 under Paragraph 6 of Schedule 7 to the Government of Wales Act 1998. These comprise the Summary of Resource Outturn, the Operating Cost Statement and Statement of Recognised Gains and Losses, the Balance Sheet, the Cash flow Statement and the Statement of Operating Costs by Departmental Aim and Objectives and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that Report as having been audited.

Respective responsibilities of the Accounting Officer and auditor

The Accounting Officer is responsible for preparing the Annual Report, including a Remuneration Report, and the financial statements in accordance with Paragraph 5 of Schedule 7 to the Government of Wales Act 1998 and HM Treasury directions made thereunder and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of Accounting Officer's Responsibilities.

My responsibility is to audit the financial statements and the part of the Remuneration Report to be audited in accordance with relevant legal and regulatory requirements, and with International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Government of Wales Act 1998 and HM Treasury directions issued thereunder. I report to you whether, in my opinion, certain information, which comprises the Annual Report, the Management Commentary and the unaudited part of the Remuneration Report, is consistent with the financial statements. I also report 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. In addition I report to you if Forestry Commission Wales has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by relevant authorities regarding remuneration and other transactions is not disclosed.

I review whether the Statement on Internal Control on pages [36 - 38] reflects Forestry Commission Wales's compliance with HM Treasury's guidance, and I report if it does not. I am not required to consider whether this Statement covers all risks and controls, or to form an opinion on the effectiveness of Forestry Commission Wales's corporate governance procedures or its risk and control procedures.

I also 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 report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements made by the Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are most appropriate to Forestry Commission Wales'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 and the part of the Remuneration Report to be audited are free from material misstatement, whether caused by fraud or error 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 also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Remuneration Report to be audited.

Opinions

Audit Opinion

In my opinion:

- the financial statements give a true and fair view, in accordance with the Government of Wales Act 1998 and directions made thereunder by HM Treasury, of the state of Forestry Commission Wales's affairs as at 31 March 2007 and the net cash requirement, net resource outturn, resources applied to objectives, recognised gains and losses and cash flows for the year then ended;
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Government of Wales Act 1998 and HM Treasury directions issued thereunder; and
- information given within the Annual Report, the Management Commentary and the unaudited part of the Remuneration Report, is consistent with the financial statements.

Audit Opinion on Regularity

In my opinion, 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.

Report

I have no observations to make on these financial statements.

Jeremy Colman
Auditor General for Wales
09 July 2007

Wales Audit Office
2-4 Park Grove
Cardiff CF10 3PA

Operating Cost Statement

for the year ended 31 March 2007

| | | | 2006-07 £000 | 2005-06 £000 |
|------------------------------|------|---------------|----------------------|----------------------|
| | Note | Staff Costs | Other Costs | Income |
| Administration Costs: | | | | |
| Staff Costs | 5 | 11,469 | | 11,332 |
| Other Administration costs | 6 | | 7,540 | 7,005 |
| Operating Income | 7 | | | (304) |
| Programme Costs: | | | | |
| Programme costs | 8 | | 29,928 | 27,677 |
| EU income | 8 | | | (197) |
| Other income | 8 | | | (19,335) |
| Totals | | <u>11,469</u> | <u>37,468</u> | <u>(19,836)</u> |
| Net operating Cost | | | <u>29,101</u> | <u>27,573</u> |

There have been no acquisitions during the year.

Statement of Recognised Gains and Losses

for the year ended 31 March 2007

| | | 2006-07 £000 | 2005-06 £000 |
|---|------------|----------------------|----------------------|
| Net gain on revaluation of tangible fixed assets | Note 19(a) | 10,953 | 8,891 |
| Movement on government grant reserve | Note 19(b) | 756 | 1,312 |
| Recognised gains and losses for the financial year | | <u>11,709</u> | <u>10,203</u> |

The notes on pages 46 to 67 form part of these accounts.

Balance Sheet

as at 31 March 2007

| | Note | 2006-07 £000 | 2005-06 £000 |
|--|-------|-----------------------|-----------------------|
| Fixed assets: | | | |
| Tangible assets | 11 | 161,135 | 151,734 |
| Debtors falling due after more than one year | 14 | 922 | 40 |
| Current assets: | | | |
| Stocks | 13 | 603 | 745 |
| Debtors | 14 | 5,475 | 5,672 |
| Cash at bank and in hand | 15 | <u>1,569</u> | <u>2,699</u> |
| | | 7,647 | 9,116 |
| Creditors (amounts falling due within one year) | 16 | (4,590) | (7,298) |
| Net current assets | | <u>3,057</u> | <u>1,818</u> |
| Total assets less current liabilities | | 165,114 | 153,592 |
| Creditors (amounts falling due after more than one year) | 16 | (262) | (284) |
| Provisions for liabilities and charges | 17 | (210) | (231) |
| | | <u>164,642</u> | <u>153,077</u> |
| Taxpayers' equity: | | | |
| General fund | 18 | 114,515 | 114,212 |
| Revaluation reserve | 19(a) | 47,423 | 36,801 |
| Government grant reserve | 19(b) | 2,704 | 2,064 |
| | | <u>164,642</u> | <u>153,077</u> |

Ian Forshaw
Accounting Officer
05 July 2007

The notes on pages 46 to 67 form part of these accounts.

Cash Flow Statement

for the Year Ended 31 March 2007

| | Note | 2006-07 £000 | 2005-06 £000 |
|--|-------|-----------------------|---------------------|
| Net cash outflow from operating activities | 20(a) | (23,843) | (19,958) |
| Capital expenditure and financial investment | 20(b) | (100) | (1,179) |
| WEFO deferred income | | (4) | 972 |
| Net financing | 20(d) | 22,817 | 21,705 |
| Increase/(decrease) in cash in the period | 20(e) | <u>(1,130)</u> | <u>1,540</u> |

The notes on pages 46 to 67 form part of these accounts.

Statement of Operating Costs by Departmental Aim and Objectives

for the year ended 31 March 2007

| | Gross | Income | 2006-07 £000 Net | Gross | Income | 2005-06 £000 Net |
|--|---------------|-----------------|------------------------|---------------|-----------------|------------------------|
| Objectives | | | | | | |
| Woodlands supporting effective and durable communities | 21,532 | (8,728) | 12,804 | 17,945 | (7,192) | 10,753 |
| Sustainable woodland management | 9,298 | (3,769) | 5,529 | 8,743 | (3,504) | 5,239 |
| Woodlands making a positive contribution to a thriving and sustainable Welsh economy | 11,256 | (4,562) | 6,694 | 12,424 | (4,979) | 7,445 |
| Woodlands contributing to a healthy and resilient environment | 6,851 | (2,777) | 4,074 | 6,902 | (2,766) | 4,136 |
| Net operating costs | 48,937 | (19,836) | 29,101 | 46,014 | (18,441) | 27,573 |

See note 21 for explanation of apportionment across objectives.

Notes to the resource accounts

1. Statement of accounting policies

These financial statements have been prepared in accordance with the 2006-07 *Government Financial Reporting Manual (FReM)* issued by HM Treasury. The accounting policies contained in the *FReM* follow UK generally accepted accounting practice for companies (UK GAAP) to the extent that it is meaningful and appropriate to the public sector.

In addition to the primary statements prepared under UK GAAP, the *FReM* also requires Forestry Commission Wales to prepare two additional primary statements. The *Statement of Parliamentary Supply* (or equivalent for Forestry Commission Wales, which is funded by the National Assembly for Wales) and supporting notes show outturn against Estimate in terms of the net resource requirement and the net cash requirement. For the purposes of these accounts, the title "Summary of Resource Outturn" has been used for this primary statement. The other primary statement, the *Statement of Operating Cost by Departmental Aim and Objectives* and supporting notes analyse the Department's income and expenditure by the objectives agreed with Ministers.

Where the *FReM* permits a choice of accounting policy, the accounting policy which has been judged to be most appropriate to the particular circumstances of Forestry Commission Wales for the purpose of giving a true and fair view has been selected. Forestry Commission Wales' accounting policies have been applied consistently in dealing with items considered material in relation to the accounts.

1.1 Accounting convention

These accounts have been prepared under the historical cost convention modified to account for the revaluation of fixed assets.

1.2 Administrative and programme expenditure

The operating cost statement is analysed between administration and programme costs. Administration costs reflect the costs of running Forestry Commission Wales, together with associated operating income, and programme costs include costs relating to managing the Assembly Woodlands and payments of grants. Programme income is generated from managing the Assembly Woodlands.

1.3 Capital charges

Charges, reflecting the cost of capital utilised by Forestry Commission Wales have been included under programme costs in the operating cost statement. The charge is calculated at the Government's standard rate of 3.5% 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.

1.4 Pensions

Past and present employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS). The defined benefit schemes are unfunded and are non-contributory except in respect of dependants' benefits. Forestry Commission Wales recognises the expected cost of these elements 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. In respect of the defined contribution schemes, Forestry Commission Wales recognises the contributions payable for the year.

1.5 Contingent liabilities

In addition to contingent liabilities disclosed in accordance with FRS 12, Forestry Commission Wales discloses for parliamentary reporting and accountability purposes certain statutory and non-statutory contingent liabilities where the likelihood of economic benefit is remote, but which have been reported to the National Assembly for Wales in accordance with the requirements of Government Accounting.

Where the time value of money is material, contingent liabilities which are required to be disclosed under FRS 12 are stated at discounted amounts and the amount reported to the National Assembly for Wales separately noted. Contingent liabilities that are not required to be disclosed by FRS 12 are stated at the amounts reported to the National Assembly for Wales.

1.6 Tangible fixed assets

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

Tangible fixed assets are revalued annually as at 31 March. With the agreement of HM Treasury, from 1 April 2008, future revaluations shall take place on 1 April.

Forest estate

A full, professional valuation is undertaken at five yearly intervals by an external panel of two firms of valuers. The panel includes the Forestry Commission Wales' country land agent. In accordance with the RICS Appraisal and Valuation Standards (the "Red Book"), the valuation is based on the assets' existing use. This is because the forest estate is regarded as a non-specialised asset that is occupied by its owners for the purposes of their business. The next full valuation shall take place on 1 April 2008. From that date, accounts shall be prepared under International Accounting Standards and the Forest Estate shall be valued under the Existing Use and Fair Value bases as appropriate. Indices provided by the valuation panels are used to restate values in the intervening years. Use of the indices shall continue after 1 April 2008.

Non-forest land

Professionally qualified staff employed by the Forestry Commission undertake a full revaluation of non-forest land at five yearly intervals coinciding with that for the forest estate. They follow the principles set out in the RICS Red Book and value on the basis of Open Market Value, Existing Use Value, Depreciated Replacement Cost or Discounted Cash Flow as appropriate under the RICS guidance. Unequipped agricultural land indices provided by the District Valuer are used to restate values between full valuations. The next full valuation shall take place on 1 April 2008.

Dwellings and other buildings

Professionally qualified staff employed by the Forestry Commission undertake a full revaluation of dwellings and other buildings at five yearly intervals coinciding with that for the forest estate and non-forest land. They follow the principles set out in the RICS Red Book and value on the basis of Open Market Value, Existing Use Value, Depreciated Replacement Cost or Discounted Cash Flow as appropriate under the RICS guidance. Indices provided by the District Valuer are used to restate values between full valuations. The next full valuation shall take place on 1 April 2008.

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

Expenditure on infrastructure

To maximise the environmental, social and economic benefits of the Forest Estate and Other Land, the Commission improves and develops access and services by adding to the infrastructure on its sites. Infrastructure includes new roads, bridges, culverts etc. Costs in respect of infrastructure works are expensed as they occur. The Commission takes the view that the professional valuations of the Forest Estate and Other Land properly recognise the contribution that infrastructure items make to land values. It also considers that the annual revaluation by indexation reflects improvements made through new infrastructure.

Surplus properties

Fixed assets are reviewed regularly to ensure they continue to contribute positively to policy and business objectives. Assets that no longer provide the required level of contribution are considered for disposal by senior management. Decisions to sell such properties take into account a number of factors including the social and environmental effects as well as marketability. Surplus properties are retained in their fixed asset category and continue to be valued on the appropriate basis as set out in the preceding paragraphs. However, values may be materially affected by development factors such as the award of planning permissions. Where this occurs, assets are revalued to an Open Market Value based on advice provided by the selling agents and taking account of the circumstances of the sales. Revaluation takes place in the quarter following the development event.

Plant and machinery

Forestry vehicles, machinery and equipment are revalued every five 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.

Information technology

Information technology (IT) values are restated to current value each year using indices provided by the Office for National Statistics. The normal threshold for capitalisation of IT assets is £1,500.

Assets under construction

Assets under construction are carried at cost and are transferred to the appropriate fixed asset category when completed and ready for use.

1.7 Depreciation

Land (forest estate, non-forest and Forest Holidays land) held under freehold is 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:

| | | |
|--------------------------------------|---|--|
| Land held under a finance lease | - | unexpired term of the lease |
| Lease premium | - | unexpired term of the lease |
| Freehold buildings | - | over 1 to 60 years |
| Buildings held under a finance lease | - | lesser of unexpired term of lease and 60 years |
| Plant and machinery | - | over 3 to 16 years |
| Information technology | - | over 4 to 20 years |
| Software | - | over 5 to 7 years |

1.8 Government grants receivable

Government grants in respect of capital expenditure are credited to a government grant reserve. Subsequent revaluations are also taken to this reserve. Each year, an amount equal to the depreciation charge on the asset is released from the government grant reserve to the operating cost statement. Where the grant contributes only part of the cost of the fixed asset, only that proportion is released from the government grant reserve. Grants of a revenue nature are credited to income so as to match them with the expenditure to which they relate.

1.9 Subsidiaries, associates and joint ventures

Where Forestry Commission Wales holds investments in subsidiaries, associates or joint ventures that are outside the departmental boundary and does not exercise in-year budgetary control, then, in accordance with FReM 2.4, the investment will be treated as a fixed asset investment.

1.10 Stocks

Finished goods and work in progress are valued as follows:-

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

1.11 Income

Income represents income receivable from forestry and related activities and is stated net of value added tax.

1.12 Leases

Where substantially all the risks and rewards of ownership of a leased asset are borne by Forestry Commission Wales (a Finance Lease), the right to use the asset is initially recorded as a tangible fixed asset. A corresponding debt is recorded to the lessor represented by the minimum lease payments over the unexpired term of the lease discounted by the Treasury discount rate of 3.5%. Costs in respect of operating leases (any lease other than a Finance Lease) are charged on a straight-line basis over the lease term.

Assets held under Finance Leases are depreciated over the unexpired term of the lease. The value of each underlying asset is revalued annually as though ownership of the asset was vested in the Forestry Commissioners. The policies and procedures for carrying out the revaluations are those set out in 1.3 above.

1.13 Grants payable

Grants payable to individuals and bodies by the Forestry Commission in accordance with its statutory powers and duties are accounted for as they are approved for payment. No provision is made in the financial statements for grant offers made but not yet approved for payment, although they are quantified at note 24.

1.14 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 and the European Agricultural Fund for Rural Development. Once grants become recognised, contributions from the EU are claimed. If grants are subsequently recovered because of failure to fulfil the conditions of the relevant woodland grant scheme, the amount of co-financing may be repayable to the EU.

1.15 Provisions

Forestry Commission Wales provides for legal or constructive obligations which are of uncertain timing or amount at the balance sheet date on the basis of the best estimate of the expenditure required to settle the obligation. Where the effect of the time value of money is significant, the estimated risk-adjusted cashflows are discounted using the real rate set by HM Treasury.

1.16 Value Added Tax

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

2. Analysis of net resource outturn by section

| | | | | | | | 2006-07 | 2005-06 | |
|-------------------------------|-------|------------------|--------|----------------------------------|--------|---------------|---------------|--|---------------|
| | | | | | | | £000 | £000 | |
| | | | | | | | Outturn | Estimate | |
| | | | | | | | Net | Net Total Outturn compared with | |
| | | | | | | | Total | Estimate | |
| | | | | | | | Net | Prior- year outturn | |
| | | | | | | | Total | Total | |
| | | | | | | | Total | Total | |
| Request for resources: | | | | | | | | | |
| Forestry Commission Wales | Admin | Other current | Grants | Gross resource Expenditure | A in A | Net Total | 30,721 | 1,620 | 27,573 |
| | | | | | | 29,101 | | | |
| Resource Outturn | | | | | | 29,101 | 30,721 | 1,620 | 27,573 |

The difference between estimate and net total resource outturn is principally due to:

- Cost of Capital below estimate by £2.9m
- Salary savings of £0.2m.
- Additional operational income of £0.9m providing for £0.4m investment in our roads infrastructure and accommodation of £0.8m National Forest Estate Windfarm Programme costs.
- Additional income from sales of assets amounted to £0.5m contributing £1.3m to the Visitor Centre infrastructure programme and investment in replacement of harvesting machinery of £0.4m.

Detailed explanations of the variances are given in the Management Commentary.

3. Reconciliation of outturn to net operating cost

| | Note | Outturn | Supply Estimate | 2006-07 £000 Outturn compared with Estimate | 2005-06 £000 Outturn |
|---------------------------|------|---------------|-----------------|---|----------------------------|
| Net Resource Outturn | 2 | 29,101 | 30,721 | 1,620 | 27,573 |
| Prior Period Adjustments | | - | - | - | - |
| Non-supply income (CFERs) | | - | - | - | - |
| Non-supply Expenditure | | - | - | - | - |
| Net operating cost | | 29,101 | 30,721 | 1,620 | 27,573 |

4. Reconciliation of resources to cash requirement

| | Note | Estimate £000 | Outturn £000 | Net total outturn compared with Estimate: saving/(excess) £000 |
|--|-------|------------------|-----------------|---|
| Resources Outturn | | 30,721 | 29,101 | 1,620 |
| Capital: | | | | |
| • Acquisition of tangible fixed assets | 11 | - | 1,463 | (1,463) |
| • Investments | | - | - | - |
| Non-operating cost A in A: | | | | |
| • Proceeds of fixed asset disposals | | - | (1,342) | 1,342 |
| Government grants applied to the acquisition of fixed assets | 19(b) | - | (554) | 554 |
| Accruals adjustments: | | | | |
| • Non-cash items | 6/8 | (8,458) | (6,393) | (2,065) |
| • Changes in working capital other than cash | | 1,310 | 1,189 | 121 |
| • Changes in creditors falling due after more than one year | 16 | - | 22 | (22) |
| • Use of provision | 17 | - | 76 | (76) |
| • Timing between accrual and cash VAT | 18 | - | (166) | 166 |
| • Non-cash inter-country transfers | 18 | - | (7) | 7 |
| Net cash requirement | | 23,573 | 23,389 | 184 |

5. Staff numbers and related costs

Staff costs comprise:

| | 2006-07 £000 | Permanently employed | | 2005-06 £000 |
|------------------------|-----------------|----------------------|------------|-----------------|
| | Total | staff | Others | Total |
| Wages and salaries | 8,985 | 8,985 | - | 9,000 |
| Social security costs | 664 | 664 | - | 669 |
| Other pension costs | 1,633 | 1,633 | - | 1,568 |
| Agency staff | 187 | - | 187 | 95 |
| Total net costs | 11,469 | 11,282 | 187 | 11,332 |

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme but the Forestry Commission is unable to identify its share of the underlying assets and liabilities. The scheme actuary valued the scheme as at 31 March 2003. You can find details in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice-pensions.gov.uk).

For 2006-07, employers' contributions of £1,629,000 were payable to the PCSPS (2005-06 £1,566,000) at one of four rates in the range 17.1% to 25.5% of pensionable pay, based on salary bands (the rates in 2005-06 were between 16.2% and 24.6%). The scheme's Actuary reviews employer contributions every four years following a full scheme valuation. From 2007-08, the salary bands will be revised and the rates will remain the same. The contribution rates are set to meet the cost of the benefits accruing during 2006-07 to be paid when the member retires, and not the benefits paid during this period to existing pensioners.

Employees can opt to open a **partnership** pension account, a stakeholder pension with an employer contribution. Employers' contributions of £4,000 were paid to one or more of a panel of three 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 £300, 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.

1 individual retired early on ill health grounds; the total additional accrued pension liabilities in the year amounted to £2,300.

Average number of persons employed

Staff numbers have been apportioned pro rata to the net expenditure on each objective. The average number of whole-time equivalent persons employed during the year was as follows.

| Objective | 2006-07 Number | | | 2005-06 Number (Restated) |
|--|-------------------|--------------------|----------|---------------------------------|
| | Total | Permanent staff | Others | |
| Woodlands supporting effective and durable communities | 163 | 161 | 2 | 148 |
| Sustainable woodland management | 71 | 70 | 1 | 72 |
| Woodlands making a positive contribution to a thriving and sustainable Welsh economy | 86 | 85 | 1 | 102 |
| Woodlands contributing to more healthy and resilient environment | 53 | 52 | 1 | 57 |
| Total | 373 | 368 | 5 | 379 |

6. Other administration costs

| | 2006-07 | 2005-06 |
|--|----------------|----------------|
| | £000 | £000 |
| Operating leases | 53 | 57 |
| Central shared services | 2,895 | 3,052 |
| Other expenditure | 3,888 | 3,612 |
| Auditors' remuneration and expenses – audit work | 49 | 47 |
| Auditors' remuneration and expenses – non-audit work | - | - |
| Sub-total | 6,885 | 6,768 |
| <u>Non-cash costs</u> | | |
| Depreciation | 419 | 275 |
| Impairment | 2 | 8 |
| Gain/loss on disposal of tangible fixed assets | 160 | - |
| Write-off of intangible fixed asset | 19 | 2 |
| Provisions | | |
| Provided in year | 149 | 76 |
| Provisions not required written back | (91) | (131) |
| Unwinding of discount | (3) | 7 |
| Sub-total | 655 | 237 |
| Total | 7,540 | 7,005 |

Other expenditure includes the cost of shared central services provided to Forestry Commission Wales. Shared central services are defined as those where a single provider is considered the best solution, in terms of practicality, cost or the needs of stakeholders although primary direction comes from the countries. Six areas of work are identified as shared services:

- Finance and accounting services
- Information and communications technology
- Human Resources, including forestry training services
- Communications
- Grants and licences
- Operational support services

For each of the shared services, a service board composed of 'intelligent buyers' from the countries, Forest Research and the service provider have joint accountability for the operation to ensure the needs of the customer and the wider organisation are met. Charges were made at regular intervals during the year.

Business Units covering mechanical and civil engineering and nurseries charge for their services under service level agreements agreed with their own service board. Expenditure was accounted for in each country at the time it was incurred.

The Forest Research Agency provides research development and survey services to Forestry Commission Wales through a service level agreement and charges internal Forestry Commission Wales customers in the year. The Forest Research Agency is charged for shared services and business unit costs where appropriate.

7. Operating income

| | 2007-07 | 2005-06 |
|------------------|----------------|----------------|
| | £000 | £000 |
| | Total | Total |
| Operating income | 304 | 192 |
| | 304 | 192 |

8. Programme Costs

8.1 Programme expenditure

| | 2006-07 £000 | 2005-06 £000 |
|--|-------------------------|-------------------------|
| Management of Welsh Assembly Woodlands | 14,245 | 13,863 |
| Grants: | | |
| Support for forestry and the rural economy, including grants paid to private woodland owners | 3,034 | 3,444 |
| Grants paid to private woodland owners from EU receipts | 197 | 805 |
| | <u>3,231</u> | <u>4,249</u> |
| Objective1 expenditure | 5,961 | 3,829 |
| Other programme costs, including research and publications | 980 | 504 |
| Cost of capital | 5,511 | 5,232 |
| Programme expenditure | <u>29,928</u> | <u>27,677</u> |

Included within programme expenditure are the following costs:

| | 2006-07 £000 | 2005-06 £000 |
|----------------------------|-------------------------|-------------------------|
| <u>Cash costs</u> | | |
| Hire of plant and machines | <u>803</u> | <u>1,741</u> |
| <u>Non cash costs</u> | | |
| Cost of capital | 5,511 | 5,232 |
| Depreciation | 536 | 397 |
| | <u>6,047</u> | <u>5,629</u> |

8.2 Programme income

| | 2006-07 £000 | 2005-06 £000 |
|---|-------------------------|-------------------------|
| Operational income from Welsh Assembly Woodlands | 11,956 | 11,469 |
| Planting grant co-financing from EU | 197 | 805 |
| Objective 1 EU and NAW funding | 7,088 | 5,715 |
| Gain on disposal of properties including external costs | 216 | 161 |
| Publications income | 26 | 21 |
| Other income | 49 | 78 |
| Programme income | <u>19,532</u> | <u>18,249</u> |

Included within programme income are the following amounts:

| | | |
|--|-------------------|-------------------|
| <u>Non cash amount</u> | | |
| Release from government grant reserve | 116 | - |
| Gain on disposal of tangible fixed assets excluding external costs | 193 | 298 |
| Total | <u>309</u> | <u>298</u> |

9. Management of Welsh Assembly Woodlands

Income and expenditure relating to the management of Assembly Woodlands:

| | 2006-07 £000 | 2005-06 £000 |
|--|-------------------------------|-------------------------------|
| <i>Operating Income</i> | | |
| Sales of Timber | 8,729 | 8,179 |
| Forest Protection and Maintenance | 72 | 49 |
| Management and Development of Estate | 1,558 | 3,404 |
| | <u>10,359</u> | <u>11,632</u> |
| <i>Operating Expenditure</i> | | |
| Forest Planning | 1,905 | 1,729 |
| Harvesting and Haulage of Timber | 6,399 | 6,573 |
| Forest Roads | 1,682 | 2,396 |
| Forest Protection and Maintenance | 5,773 | 5,925 |
| Management and Development of Estate | 3,106 | 3,024 |
| | <u>18,865</u> | <u>19,647</u> |
| <i>Operating Deficit</i> | (8,506) | (8,015) |
| <i>Recreation, conservation & heritage</i> | | |
| Income | 1,893 | 1,177 |
| Expenditure | 7,776 | 8,502 |
| | <u>(5,883)</u> | <u>(7,325)</u> |
| <i>Operating Deficit Net of Recreation ,Conservation & Heritage</i> | (14,389) | (15,340) |
| Surplus/(deficit) on sale of properties | 209 | 144 |
| Deficit | <u>(14,180)</u> | <u>(15,196)</u> |

In May 2006, the Forestry Commission entered into a partnership with the Camping and Caravanning Club to take over management of its Forest Holidays business. This has resulted in a change to the way in which the Forestry Commission will account for its interest in Forest Holidays. In previous years, Forest Holidays income and expenditure was included in 'management and development of estate'. As the investment in the partnership is outside the departmental boundary and Forestry Commission Wales does not exercise in-year budgetary control over the partnership, then, in accordance with FReM 2.4, the investment will be treated as a fixed asset investment. During 2006-07, no income was received from the investment in the partnership but a gain on disposal of £33,000 is included in sale of properties in note 8.2. More details on the financial implications of the transfer of the Forest Holidays is disclosed in note 12.

The net deficit for the management of Assembly Woodlands is included in the Operating Cost as follows:

| | 2006-07 £000 | 2005-06 £000 |
|-----------------------------------|-------------------------------|-------------------------------|
| Administration costs | | |
| Staff costs | 8,017 | 7,857 |
| Other administration costs | 3,921 | 5,068 |
| Gross administration costs | <u>11,938</u> | <u>12,925</u> |
| Operating income | (47) | (123) |
| Net administration costs | <u>11,891</u> | <u>12,802</u> |
| Programme costs | | |
| Expenditure | 14,245 | 13,863 |
| Less income | (11,956) | (11,469) |
| Net programme costs | <u>2,289</u> | <u>2,394</u> |
| Net operating costs | <u>14,180</u> | <u>15,196</u> |

10. Analysis of net operating cost by spending body

| | 2006-07 £000 | 2005-06 £000 |
|---------------------------|-------------------------------|-------------------------------|
| | Estimate | Outturn |
| Forestry Commission Wales | 30,721 | 27,573 |
| Net Operating Cost | <u>30,721</u> | <u>27,573</u> |

11. Tangible Fixed Assets

| | Forest | | Forest Holidays | Dwellings and Other | Forest Holidays | Plant and machinery | Information technology | POA and AUC | Total |
|-------------------------|----------------|--------------|--------------------|------------------------|--------------------|---------------------------|---------------------------|-------------------|----------------|
| | Estate £000 | Land £000 | Land £000 | Buildings £000 | Buildings £000 | £000 | £000 | £000 | £000 |
| Valuation: | | | | | | | | | |
| At 1 April 2006 | 136,518 | 5,665 | 750 | 6,013 | 185 | 4,156 | 1,196 | 1,448 | 155,931 |
| Additions | - | - | - | 89 | - | 402 | 154 | 818 | 1,463 |
| Transfers | - | 38 | - | 2,066 | - | - | 138 | (2,242) | - |
| Disposals | (785) | (78) | (750) | (109) | (185) | (780) | (1,099) | - | (3,786) |
| Write-off | - | - | - | (6) | - | - | - | (15) | (21) |
| Revaluation | 9,812 | 674 | - | 767 | - | - | - | - | 11,253 |
| Impairment | - | - | - | - | - | - | (8) | - | (8) |
| At 31 March 2007 | 145,545 | 6,299 | - | 8,820 | - | 3,778 | 381 | 9 | 164,832 |
| Depreciation: | | | | | | | | | |
| At 1 April 2006 | | | | 943 | 35 | 2,432 | 787 | - | 4,197 |
| Provided during year | | | | 400 | 1 | 362 | 192 | - | 955 |
| Transfers | | | | - | - | - | - | - | - |
| Disposals | | | | (24) | (36) | (630) | (855) | - | (1,545) |
| Write-off | | | | (2) | - | - | - | - | (2) |
| Revaluation | | | | 98 | - | - | - | - | 98 |
| Impairment | | | | - | - | - | (6) | - | (6) |
| At 31 March 2007 | | | | 1,415 | - | 2,164 | 118 | - | 3,697 |
| At 31 March 2007 | 145,545 | 6,299 | - | 7,405 | - | 1,614 | 263 | 9 | 161,135 |
| At 1 April 2006 | 136,518 | 5,665 | 750 | 5,070 | 150 | 1,724 | 409 | 1,448 | 151,734 |

The forest estate was revalued at £131,307,000 as at 31 March 2003 by a country valuation panel comprising John Clegg & Co. Chartered Surveyors, Bidwells Chartered Surveyors and professionally qualified land agents employed by the Forestry Commission. The valuation is based on a sample number of properties and the results extrapolated by professionally qualified staff employed by the Forestry Commission. Values are determined using the RICS Existing Use basis. The next full revaluation is due as at 1 April 2008 with annual updates in the intervening years based on an external professional opinion. For 2006-07, valuations were updated using indexation information provided by the country valuation panel.

Non-forest land was valued at £2,709,000 and dwellings and other buildings at £4,095,000 as at 31 March 2002 by professionally qualified land agents employed by the Forestry Commission. This was on the basis of Open Market Value, Existing Use Value, Depreciated Replacement Cost Value or Discounted Cash Flow Value as appropriate under the RICS guidance. The properties were scheduled to be re-assessed as at 31 March 2005 in accordance with the three-yearly interval stated in the previous accounting policy. To bring the policy in line with UK GAAP, professional valuations of non-forest land and dwellings and other buildings will be undertaken on a five-yearly basis. The first five-yearly valuation will be at 1 April 2008, to coincide with the next full revaluation of the Forest Estate. Annual updates in the intervening years are based on indices provided by the District Valuer.

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

As at 31 March 2007 management had taken the decision that 1 Dwelling and Other Buildings and 10 properties within the Forest Estate and Other Land were surplus to operation requirements. For marketing and other reasons these properties may not be disposed off immediately. The buildings are included in the financial statements at a net book value of £70,000. The land assets are included at a value of £310,000. These values have been determined using an Open Market Valuation basis by internal, professionally qualified staff. Prior to revaluation the net book values were £70,000 for buildings and £250,000 for land.

Plant and machinery was valued at £1,605,000 as at 31 March 2005 by professionally qualified staff employed by the Forestry Commission 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. The next full revaluation is due as at 31 March 2010 with annual updates in the intervening years based on indices provided by the Office for National Statistics. For 2006-07, the movement in the index was immaterial and no revaluation was undertaken.

IT was restated to a current value of £263,000 as at 31 March 2007 using an index provided by the Office for National Statistics.

Additions to assets under construction included £41,000 funded by UK government grants and £513,000 funded by EU grants.

12. Fixed asset investments

In May 2006, the Forestry Commission entered into a partnership with the Camping and Caravanning Club to take over management of its Forest Holidays business. This has resulted in a change to the way in which the Forestry Commission will account for its interest in Forest Holidays. As the investment in the partnership is outside the departmental boundary and Forestry Commission Wales does not exercise in-year budgetary control over the partnership, then, in accordance with FReM 2.4, the investment will be treated as a fixed asset investment.

The net book value of Forestry Commission Wales' cabin and campsite land and buildings transferred to the partnership was £899,000. In return, Forestry Commission Wales received £932,000 comprising:

- a fixed asset investment valued at nil at 31 March 2007;
- as lessors of the sites to the partnership, Forestry Commission Wales will show a long term debtor balance on its balance sheet to represent the net present value of the future rental payments over 75 years due by the partnership company totalling £647,000; and
- a long term debtor of £285,000 with the capital and interest due to be repaid in five instalments commencing year end 31 March 2012.

The gain on disposal and increase in the value of the balance sheet was £33,000.

Forestry Commission Wales' share of the net assets and results is summarised below:

| | £000 |
|---|-------------|
| Net assets at 31 March 2007 | 276 |
| Turnover | 133 |
| Deficit for the year (before financing) | 14 |

13. Stocks and Work in Progress

| | 2006-07 £000 | 2005-06 £000 |
|--|-------------------------|-------------------------|
| Timber | 424 | 533 |
| Plants & seed | - | 24 |
| Consumable materials, supplies and livestock | 179 | 188 |
| Total | 603 | 745 |

14. Debtors

14(a) Analysis by type

| | 2006-07 £000 | Restated 2005-06 £000 |
|--|-------------------------|--------------------------------------|
| Amounts falling due within one year: | | |
| Trade debtors | 2,577 | 2,337 |
| Other debtors | 1 | 31 |
| House purchase loans to employees | 7 | 6 |
| Lease debtor | 21 | - |
| EU funding accrued income | 124 | 504 |
| Prepayments and accrued income | 2,745 | 2,794 |
| Total | 5,475 | 5,672 |
| | | |
| | 2006-07 £000 | 2005-06 £000 |
| Amounts falling due after more than one year: | | |
| Partnership loan | 285 | - |
| Partnership lease | 605 | - |
| House purchase loans to employees | 32 | 40 |
| Total | 922 | 40 |

Forestry Commission Wales had house purchase loans totalling £39,000 outstanding at 31 March 2007 relating to 6 employees.

14(b) Intra-Government Balances

| | Amounts falling due within one year | | Amounts falling due after more than one year | |
|---|-------------------------------------|--------------|--|-----------|
| | £000 | | £000 | |
| | 2006-07 | 2005-06 | 2006-07 | 2005-06 |
| Balances with other central government bodies | 594 | 771 | - | - |
| Balances with local authorities | 15 | 32 | - | - |
| Balances with NHS Trusts | - | - | - | - |
| Balances with public corporations and trading funds | - | 1 | - | - |
| Intra-government balances | 609 | 804 | - | - |
| Balances with bodies external to government | 4,866 | 4,868 | 922 | 40 |
| Total debtors at 31 March | 5,475 | 5,672 | 922 | 40 |

15. Cash at Bank and in Hand

| | 2006-07 £000 | 2005-06 £000 |
|------------------------------|-----------------|-----------------|
| Balance at 1 April | 2,699 | 1,159 |
| Net change in cash balances: | (1,130) | 1,540 |
| Balance at 31 March | 1,569 | 2,699 |

The following balances at 31 March are held at:

| | | |
|---|--------------|--------------|
| Balance with Office of Paymaster General | 1,569 | 2,699 |
| Cash at commercial banks and cash in hand | - | - |
| Balance at 31 March | 1,569 | 2,699 |

The balance at 31 March comprises:

| | | |
|---|--------------|--------------|
| Amounts issued from the Welsh Assembly for supply but not spent at year end | 184 | 1,310 |
| WEFO deferred income | 1,112 | 1,389 |
| Other deferred income | 273 | - |
| Balance at 31 March | 1,569 | 2,699 |

16. Creditors

16(a) Analysis by type

| | 2006-07 £000 | 2005-06 £000 |
|--|-----------------|-----------------|
| Amounts falling due within one year: | | |
| Trade creditors | 1,782 | 3,058 |
| Other creditors | 25 | 34 |
| Accruals and deferred income | 2,566 | 2,864 |
| Current part of finance leases | 33 | 32 |
| Amounts issued from the Welsh Assembly but not spent at 31 March | 184 | 1,310 |
| | 4,590 | 7,298 |
| | | |
| | | |
| Amounts falling due after more one year: | | |
| Finance leases | 262 | 284 |
| | 262 | 284 |

Forestry Commission Wales is the lead partner in the GATE Project – Gaining Added Value for Timber – and its aim is to try to increase the use of timber in construction. Forestry Commission Wales receive funding from Interreg 111C Joint Technical Secretariat which is then distributed between the partners. The project is due to end in December 2007 but the last payment will not be received until April 2008. As third party assets these sums are not recorded on the face of these accounts. At the 31 March 2007, the amount held in Forestry Commission bank accounts was nil.

16(b) Intra-Government Balances

| | Amounts falling due within one year | | Amounts falling due after more than one year | |
|---|-------------------------------------|--------------|--|------------|
| | £000 | | £000 | |
| | 2006-07 | 2005-06 | 2006-07 | 2005-06 |
| Balances with other central government bodies | 248 | 1,310 | - | - |
| Balances with local authorities | 39 | 40 | - | - |
| Balances with NHS Trusts | - | - | - | - |
| Balances with public corporations and trading funds | - | 1 | - | - |
| Intra-government balances | 287 | 1,351 | - | - |
| Balances with bodies external to government | 4,303 | 5,947 | 262 | 284 |
| Total creditors at 31 March | 4,590 | 7,298 | 262 | 284 |

17. Provisions for liabilities and charges

| | Early departure cost £000 | Public legal claims £000 | Other legal claims £000 | Total £000 |
|--------------------------------------|------------------------------|-----------------------------|----------------------------|---------------|
| Balance at 1 April 2006 | 125 | 83 | 23 | 231 |
| Provided in the year | 85 | - | 64 | 149 |
| Provisions not required written back | - | (83) | (8) | (91) |
| Utilised in the year | (76) | - | - | (76) |
| Unwinding of discount | (3) | - | - | (3) |
| Balance at 31 March 2007 | 131 | - | 79 | 210 |

17(a) Early departure costs

Forestry Commission Wales meets the additional costs of benefits beyond the normal PCSPS benefits in respect of employees who retire by paying the required amounts annually to the PCSPS over the period between early departure and normal retirement date. Forestry Commission Wales provides for this in full when the early retirement programme becomes binding on the agency by establishing a provision for the estimated payments.

17(b) Legal claims

Provision has been made for various legal claims against Forestry Commission Wales. The provision reflects all known claims where legal advice indicates that it is more than probable that the claim will be successful and the amount of the claim can be reliably estimated.

Legal claims which may succeed but are less likely to do so or cannot be estimated reliably are disclosed as contingent liabilities in Note 25. Public legal claims are those claims from the public for personal injury or damage caused to property, and other legal claims are for compensation for injury to employees.

18. General Fund

The General Fund represents the total assets less liabilities to the extent that the total is not represented by other reserves and financing items.

| | 2006-07 £000 | 2005-06 £000 |
|---|-------------------------------|-------------------------------|
| Balance at 1 April | 114,212 | 117,233 |
| Net operating cost for the year | (29,101) | (27,573) |
| Funding from the Welsh Assembly: | | |
| Drawn down | 22,263 | 20,393 |
| Deemed supply | 1,310 | 742 |
| Amounts issued from the Welsh Assembly for supply but not spent | (184) | (1,310) |
| Notional cost of capital | 5,511 | 5,232 |
| Transfer of fixed assets from/to other forestry bodies | - | (105) |
| Transfer from Revaluation Reserve | 331 | 62 |
| Timing between accrual and cash VAT | 166 | (406) |
| Non-cash inter-country transfers | 7 | (56) |
| Balance at 31 March | 114,515 | 114,212 |

19. Reserves

19(a) Revaluation Reserve

The Revaluation Reserve reflects the unrealised element of the cumulative balance of professional valuations and indexation.

| | 2006-07 £000 | 2005-06 £000 |
|---|-------------------------------|-------------------------------|
| Balance at 1 April | 36,801 | 27,972 |
| Arising on revaluation during the year | | |
| Forest Estate | 9,812 | 7,291 |
| Land | 674 | 1,033 |
| Forest Holidays buildings | - | 9 |
| Dwellings and other buildings | 467 | 556 |
| VME | - | 2 |
| | 10,953 | 8,891 |
| Transferred to general fund in respect of realised element of revaluation reserve | (331) | (62) |
| Balance at 31 March | 47,423 | 36,801 |

19(b) Government Grant Reserve

| | UK £000 | EU £000 | 2006-07 £000 | 2005-06 £000 |
|---------------------------|------------|--------------|-----------------|-----------------|
| Balance at 1 April | 405 | 1,659 | 2,064 | 752 |
| Additions during the year | 41 | 513 | 554 | 1,312 |
| Revaluations | 41 | 161 | 202 | - |
| Release to I&E | (25) | (91) | (116) | - |
| Balance at 31 March | <u>462</u> | <u>2,242</u> | <u>2,704</u> | <u>2,064</u> |

20. Notes to the Cash Flow Statement

20(a) Reconciliation of operating cost to operating cash flows

| | | 2006-07 £000 | 2005-06 £000 |
|---|-----|------------------------|------------------------|
| Net operating cost | | (29,101) | (27,573) |
| Adjustments for non-cash transactions | 6/8 | 6,393 | 5,568 |
| Timing between accrual and cash VAT | | 166 | (406) |
| Non-cash inter-country transfers | | 7 | (56) |
| (Increase)/decrease in stock | | 142 | (74) |
| (Increase)/decrease in debtors | | (685) | 422 |
| less movements in debtors relating to items not passing through OCS | | 911 | - |
| Increase/(decrease) in creditors | | (2,730) | 3,821 |
| less movements in creditors relating to items not passing through OCS | | 1,130 | (1,540) |
| Use of provisions | 17 | (76) | (120) |
| Net cash outflow from operating activities | | <u>(23,843)</u> | <u>(19,958)</u> |

20(b) Analysis of capital expenditure and financial investment

| | | 2006-07 £000 | 2005-06 £000 |
|---|----|---------------------|-----------------------|
| Tangible fixed asset additions | 11 | (1,463) | (2,006) |
| Proceeds of disposal of fixed assets | | 1,342 | 827 |
| Lease repayments | | 21 | - |
| Loans to other bodies | | - | - |
| Repayment of loans to other bodies | | - | - |
| Net cash outflow from investing activities | | <u>(100)</u> | <u>(1,179)</u> |

20(c). Analysis of capital expenditure and financial investment by Request for Resources

| | Capital expenditure £000 | A in A £000 | Net Total £000 |
|-----------------------------------|--------------------------------|-----------------------|----------------------|
| Request for resources | 1,463 | (1,342) | 121 |
| Net movement in debtors/creditors | - | - | - |
| Total 2006-07 | <u>1,463</u> | <u>(1,342)</u> | <u>121</u> |
| Total 2005-06 | <u>2,006</u> | <u>(827)</u> | <u>1,179</u> |

20(d). Analysis of financing

| | Note | 2006-07 £000 | 2005-06 £000 |
|---|------|-----------------|-----------------|
| From the Welsh Assembly | 18 | 23,573 | 21,135 |
| Deemed supply | | (1,310) | (742) |
| Government grant applied to the acquisition of fixed assets | | 554 | 1,312 |
| Capital element of payments in respect of finance leases | | | - |
| Net financing | | 22,817 | 21,705 |

20(e). Reconciliation of Net Cash Requirement to increase/(decrease) in cash

| | Note | 2006-07 £000 | 2005-06 £000 |
|------------------------------------|-------|-----------------|-----------------|
| Net cash requirement | | (23,389) | (19,825) |
| From Welsh Assembly | 20(d) | 23,573 | 21,135 |
| Deemed supply | | (1,310) | (742) |
| WEFO deferred income | | (4) | 972 |
| Increase/(decrease) in cash | | (1,130) | 1,540 |

21. Notes to the Consolidated Statement of Operating Costs by Departmental Aim and Objectives

Expenditure in net operating costs by Department Aim and Objectives comprises the direct costs incurred by Forestry Commission 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.

22. Capital Commitments

Amounts contracted for but not provided for in the accounts amounted to £69,000, with £13,000 pertaining to the refurbishment of Garwvant Visitor Centre and £56,000 for the purchase of a mobile deer larder at Llanyddyfri forest district. (2005-06: £429,000).

23. Commitments under leases

23.1 Operating leases

Commitments under operating leases to pay rentals during the year following the year of these accounts are given in the table below, analysed according to the period in which the lease expires.

| | 2006-07 £000 | 2005-06 £000 |
|---|-----------------|-----------------|
| Obligations under operating leases comprise: | | |
| Buildings: | | |
| Expiry within 1 year | - | - |
| Expiry after 1 year but not more than 5 years | - | - |
| Expiry thereafter | 53 | 57 |
| Total | 53 | 57 |
| Other: | | |
| Expiry within 1 year | 26 | 11 |
| Expiry after 1 year but not more than 5 years | 435 | 411 |
| Expiry thereafter | - | 40 |
| Total | 461 | 462 |

23.2 Finance leases

Obligations under finance leases are as follows:

| | 2006-07 £000 | 2005-06 £000 |
|---|-----------------|-----------------|
| Rentals due in one year or less | 33 | 32 |
| Rentals due in more than one year but not more than two years | 30 | 29 |
| Rentals due in more than two years but not more than five years | 47 | 44 |
| Rentals due in more than five years | 185 | 211 |
| Total | 295 | 316 |

24. Other financial commitments

Following approval of a management plan for planting proposals, Forestry Commission Wales undertakes to pay planting grants in two instalments. Forestry Commission Wales was committed under signed plans to the payment of future instalments of planting and replanting grants amounting to £2.8 million as at 31 March 2007 (£2.3 million in 2005-06). 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 £1.5 million at 31 March 2007 (£0.9 million in 2005-06).

25. Contingent liabilities disclosed under FRS 12

There were no contingent liabilities at 31 March 2007.

26. Post balance sheet events

These financial statements were authorised for issue on 10 July 2007 by the Accounting Officer.

27. Related party transactions

Forestry Commission Wales has had various material transactions with other government departments and other central government bodies. The main entities within government with which the Forestry Commission Wales has had dealings are H M Treasury, Welsh Assembly, UK Co-ordinating Body, the Paymaster General's Office, HM Revenue and Customs and the Department for the Environment, Food and Rural Affairs.

During the year, Forestry Commission Wales entered into the following material transactions involving the non-executive Commissioners of the Forestry Commission:-

Martin Gale, a non-executive Forestry Commissioner, is Chairman of Tilhill Forestry, Vice President of UPM Corporation and a non-executive Director of BSW Timber plc. UPM Corporation is the parent company of Caledonian Paper and Tilhill Forestry Ltd. Tilhill Forestry has an interest in BSW Timber plc.

The value of purchases from Forestry Commission Wales was:

| | |
|------------------|------------|
| BSW Timber plc | £1,594,000 |
| Tilhill Forestry | £1,196,000 |

Amounts owing to Forestry Commission Wales at 31 March 2007 was:

| | |
|------------------|----------|
| BSW Timber plc | £407,000 |
| Tilhill Forestry | £148,000 |

28. 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, Forestry Commission 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.

As permitted by FRS 13, debtors and creditors which mature and become payable within 12 months from the balance sheet date have been omitted from the liquidity profile.

Liquidity risk

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

Interest-rate risk

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

Foreign currency risk

Forestry Commission 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 15. Fair value for the provisions shown in Note 17 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 2.2% in real terms.

29. Entities within the departmental boundary

There were no other entities within the boundary during 2006-07.

FORESTRY COMMISSION WALES

ACCOUNTS DIRECTION GIVEN BY THE TREASURY IN ACCORDANCE WITH PARAGRAPH 5 OF SCHEDULE 7 TO THE GOVERNMENT OF WALES ACT 1998

1. Subject to the requirements of paragraph 2 below, the Forestry Commission shall prepare resource accounts for the year ended 31 March 2005 in respect of its activities in Wales in compliance with the accounting principles and disclosure requirements of the H M Treasury Resource Accounting Manual ("the Resource Accounting Manual"). In subsequent financial years, the resource accounts shall comply with the accounting principles and disclosure requirements of the Government Financial Reporting Manual issued by H M Treasury in force for that financial year.

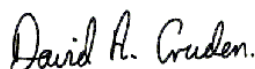
2. In addition to the requirements of the Resource Accounting Manual/ Government Financial Reporting Manual, the accounts shall include

- a. (2004-05 only) a note showing the impact of the absorption of Forest Enterprise Wales; and
- b. a note ("Management of Welsh Assembly Woodlands") analysing the income and expenditure of the operations of Forest Enterprise in Wales, together with comparative figures for the previous financial year.

3. 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.

4. Compliance with the requirements of the Resource Accounting Manual/Government Financial 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/Government Financial Manual is inconsistent with the requirement to give a true and fair view the requirements of the Resource Accounting Manual/Government Financial 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/Government Financial Manual. Any material departure from the Resource Accounting Manual/Government Financial Manual should be discussed in the first instance with the Treasury.

5. This direction supersedes that given to the Forestry Commission dated 25 October 2000.



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David A Cruden FCA
Head of the Central Accountancy Team, H M Treasury
9 September 2005