



Forestry Commission Scotland
Coimisean na Coilltearachd Alba

Annual Report and Accounts 2014-15

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INTRODUCTION

by Amanda Bryan, Chair, National Committee Scotland

It is a real pleasure to introduce Forestry Commission Scotland and Forest Enterprise Scotland's Annual Accounts for the first time in my role as Chair of the National Committee for Scotland.

The Annual Report provides a welcome opportunity to reflect on the breadth and scope of forestry activities that Forestry Commission Scotland has been engaged with during the 2014 – 2015 financial year, a year that has seen many challenges and a few significant changes, not least in personnel.

Firstly, I would like to thank my predecessor Hamish McLeod, who served as a Forestry Commissioner for six years and also chaired the National Committee for Scotland. The Committee and I are grateful for the wealth of experience and guidance he brought to the National Committee and the forest sector.

I would also like to acknowledge the departure of Dr Bob McIntosh, who retired from his role of Director Scotland after over 40 years of service at the end of February 2014. For the last two years Bob also filled the role of Director Environment and Forestry in Scottish Government and helped ensure due recognition of the important role that forestry plays in delivering a wide range of public benefits. For this we are extremely thankful.

Within Government we saw the appointment of Dr Aileen McLeod MSP as the new Minister for Environment, Climate Change and Land Reform. Dr McLeod is MSP for South Scotland and has already actively engaged with the forestry sector and has visited some key forest sites in the region.

It is clear that Forestry Commission Scotland employees continue to engage in an incredibly diverse range of work and are passionate about looking after Scotland's trees,

forests and woodlands, which is why I'm pleased to see their hard work being recognised by external organisations.

As an example, at the Lantra Scotland annual awards ceremony, Lesley Stalker from Scottish Lowlands Forest District won the Trees and Timber Learner of the Year category. And Heather Forbes from Inverness, Ross and Skye Forest District, narrowly missed out, taking the runner up spot.

The team behind the Native Woodland Survey of Scotland (NWSS) were recognised for this hugely important project and were delighted to pick up the coveted 'Innovation Award' at *RSPB's Nature of Scotland Awards*. The hotly contested award rightly recognised the achievements of many FCS staff over the last eight years and also raised the profile of the nationally significant NWSS project, which successfully mapped and surveyed all of Scotland's native woodlands.

Scotland's forests host some of our most iconic animal species. The popular Mull Eagle Watch project, which is hosted on the National Forest Estate, scooped the prestigious 5 Star Wildlife Experience award from *VisitScotland*. This award is given to "exceptional" attractions that offer top customer care and facilities. The project received the highest award partly due to the "involved and comprehensive experience" that the Mull Eagle Watch rangers provide. This award comes hot on the heels of a gold rating in the UK-wide Green Tourism Business Scheme. Mull's eagles are a major draw for tourists to the islands and are estimated to generate up to £5million towards for the local economy.

Last but not least the National Forest Estate was also re-audited against the United Kingdom Woodland Assurance Standard – and passed with flying colours. This is a tremendous accolade for the local teams all across the country that are working hard to deliver a range of sustainable benefits to people, communities, biodiversity and the economy.

The UKWAS process is based around continuous improvement of sustainability criteria. Whilst Forest Enterprise Scotland continues to work on any Corrective Actions, they were also commended for exemplary practice in many areas. Several forests within different

Forest Districts were audited – with little notice given ahead of time – and found to be well managed and operating at the highest standard.

The other side of FCS's business is equally important and after a considerable period of preparation the support available to the private sector through the new Forestry Grant Scheme - part of the wider Scotland Rural Development Programme (SRDP) 2014-2020 – is now live. I hope the scheme will offer an attractive incentive to landowners to plant more woodland and help meet Scotland's ambitious planting and climate change targets.

The scheme will provide support for woodland creation and a wide range of woodland management operations. To support the transition to the new scheme extensive training days and seminars for Conservancy staff, woodland owners and forestry agents have been held.

I recognise that achieving consistent levels of woodland creation continues to present a challenge. The effects of land owners waiting for the new grant scheme has held back some planting proposals but now that it is live, I hope that the sector will grasp the opportunities presented to prepare more woodland creation schemes.

The threat to Scotland's tree health has remained a top priority for Forestry Commission Scotland, and staff have rightly continued to invest resources in tackling those diseases which are in Scotland and working to prevent others from arriving.

The forestry sector has been working hard to help slow the spread of *Phytophthora ramorum* on larch. A combined effort across the sector has been underway since late in 2010 when the disease first infected larch in the west of Scotland. However, those efforts were ramped up significantly following a marked surge in the disease in south west Scotland in 2013 when about 5,000ha of larch stands in that area showed some signs of infection.

No fewer than 14 harvesting teams on the NFE felled 600 hectares of diseased larch in the Galloway area as part of a strategy to manage the disease and its impact.

Considerable work was also carried out with landowners and the forestry sector to assist them with controlling the disease on privately owned land.

However, the teams have had an opportunity to 'catch up' on control work thanks to the much drier summer of 2014. The rate of spread - and levels of infections - have also shown a very marked slow-down in the south west of Scotland and new aerial surveys detected only about 50ha of new larch infections elsewhere in Scotland.

FCS's aerial surveys of Scotland in 2014 to check the spread of the disease symptoms overflew more than 90% of known larch stands – identifying just under 400 potentially 'suspicious' sites, only 20 of which were subsequently confirmed as new infections after ground inspections. A further 47 sites were inconclusive and will be revisited in the spring of 2015.

The National Forest Estate has an important role to play in delivering the Scottish Government's Objectives - from sustainable economic growth through managing the estate wisely for timber production, through to helping to meet national targets for reducing carbon emissions by achieving new planting targets. The Government also has set a policy direction of reducing inequalities and achieving a fairer society, promoting community empowerment and implementing land reform, all of which Forestry Commission Scotland has been responsive to.

In that context I'm pleased that the value and importance of urban forestry continues to grow. One excellent example that is progressing well, is the £5.7 million Cuningar Loop project to transform 15 hectares of derelict land on the banks of the River Clyde into an attractive woodland park.

The project, due to open in summer 2015, has benefited from the Legacy 2014 Active Places Fund, Sportscotland's Sports Facilities Fund and funds from FCS to create a final budget of £571,500 for the activity zone, making it bigger and better than originally planned. As a result, the activity zone will feature Scotland's first outdoor bouldering park, an adventure play facility and trim trail, and the site's unique shape will enable

four mountain biking tracks to be developed: a balance track, beginners track, improvers track and pump track for advanced cyclists.

This initiative is about providing green space where none existed before, encouraging people to get outside and supporting active lifestyles. It is essential that these opportunities are available to all and not just those of us who are fortunate to live in rural Scotland or who can afford both a car and the fuel required to take us to the fantastic facilities that FCS provides around the country.

Forest Enterprise Scotland has continued to explore and develop the potential for wind and hydro schemes on the National Forest Estate that will support the 2020 target of attaining 2GW of installed capacity on the National Forest Estate. Currently almost 900MW is installed. The work to allow communities to own or invest in these schemes has begun to bear fruit with the first community-owned hydro scheme operating near Callander since November 2014 and the first scheme with a community shareholding generating near Lochaline since January 2015.

The successful programme of starter farms has continued to grow. Three starter farms were made available in 2014/15, making a total of 10 since the starter farm programme began. Achnamoine, the first starter farm in the Highlands and will see tenants take up occupation in April 2015. This farm also has the potential for new woodland planting. Woodfold farm, Rothiemay, near Huntly, offers a good mix of arable, permanent pasture and rough grazing along with a farmhouse and suitable farm buildings. The offer at Gourdie starter farm in Dundee, which failed to attract a suitable tenant in April last year, has been revised and will be put back on the market with a more focused and targeted horticultural unit. The balance of the good quality arable land at Gourdie will continue to be conventionally let for arable production.

I would like to thank all the staff for their contribution to these achievements and I look forward to another successful year supporting the forestry sector to continue to thrive in Scotland.

Amanda Bryan
Chair of the National Committee for Scotland

FACAL-TOISICH NA H-AITHRIS RIAGHLAIDH

Ie Amanda Bryan, Cathraiche, Comataidh Nàiseanta na h- Alba

Tha e na thoileachas mòr dhomh facal-toisich a chur ri Cunntasan Bliadhnaile Choimisean na Coilltearachd Alba airson na ciad uaireach nam dhreuchd mar Chathraiche air Comataidh Nàiseanta na h-Alba.

Tha an Aithisg Bhliadhnaile seo na chothrom airson coimhead air ais air an fharsaingeachd obrach a rinneadh le Coimisean na Coilltearachd rè na bliadhna ionmhais 2014 – 2015, bliadhna san robh iomadh dùbhlàn agus atharraichean gu leòr, gu h-àraidh a thaobh luchd-obrach.

Bu mhath leam an toiseachd taing a thoirt don Chathraiche romham, Hamish MacLeòid, a bha na Choimiseanair Coilltearachd fad sia bliadhna is a bha cuideachd sa chathair aig Comataidh Nàiseanta na h-Alba. Tha mi fhìn agus a' Chomataidh gu mòr an comain a chuid-eòlais 's an stiùiridh a thug e seachad don Chomataidh Nàiseanta is do roinn na coilltearachd san fharsaingeachd.

Bu mhath leam cuideachd facal a sgrìobhadh air An Dr Bob Mac an Tòisich a leig dheth a dhreuchd mar Stiùiriche Alba, às dèidh 40 bliadhna de sheirbheis, aig deireadh a' Gherrain 2014. Anns an dà bhliadhna mu dheireadh aige, bha Bob cuideachd ag obair mar Stiùiriche na h-Àrainneachd is Coilltearachd aig Riaghaltas na h-Alba; a' dèanamh cinnteach gun deigheadh aithne cheart a thoirt don àite chudromach a th' aig coilltearachd, agus na buannachd mòra na lùib. Tha sinn fada na chomain.

Anns an Riaghaltas, chunnaic sinn An Dr Aileen NicLeòid BPA a' dol a-steach do dhreuchd ùr mar Mhinistear na h-Àrainneachd, Atharrachaidh Cliomaid agus Ath-leasachadh Fearainn. Tha An Dr NicLeòid - na Ball Pàrlamaid airson Alba a Deas - air ceanglaichean

a steidheachadh mar-thà le roinn na coilltearachd is i air tadhail air cuid de làraichean coilltearachd sa sgìre aice.

Tha e follaiseach gu bheil luchd-obrach Choimisean na Coilltearachd mar-thà an sàs ann am farsaingeachd mhòr obrach, le dealas mòr aca 'son coimhead às dèidh chraobhan is choilltean na h-Alba, agus tha mi toilichte fhaicinn gu bheil an obair chruaidh seo ga h-aithneachadh le buidhnean air an taobh a-muigh.

Mar eisimpleir, aig duaisean bliadhnail Lantra Alba, choisinn Lesley Stalker aig Sgìre Choille nam Machraichean Gallda duais mar Neach-ionnsachaidh na Bliadhna a thaobh Chraobhan is Fiodha. Agus chaidh Heather Fhoirbeis (aig Sgìre Choille an Eilein Sgitheanaich agus Rois) glè fhaisg air an duais, a' coisinn an dàrna àite.

Thugadh aithne don sgioba air cùl an Sgrùdaidh air Fearann-coillteach Gnèitheach na h-Alba (NWSS) airson na h-obrach-sgrùdaidh chudromaich seo, agus bha an sgioba air an dòigh 'Duais an Innleachdais' a coisinn aig *Duaisean Nàdair na h-Alba RSPB*. Thug an duais seo aithne don uabhas luchd-obrach an sàs sa phròiseact thar nan ochd bliadhna a chaidh seachad, le aire cuideachd ga tarraing gu cudrom nàiseanta a' phròiseict NWSS, a rinn mapadh agus clàradh air gach àite sa bheil fearann-coillteach gnèitheach ann an Alba.

Lorgas ann an coilltean na h-Alba cuid dhe na beathaichean as ainmeil anns an dùthaich. Choisinn am pròiseact An Iolaire Mhuileach (*'Mull Eagle Watch'*), a tha stèidhte air Oighreachd na Coille Nàiseanta, duais mar *5 Star Wildlife Experience* bho *VisitScotland*. Tha an duais seo ga toirt seachad do phròiseactan turasachd air leth, le àrd-inbhe de ghoireasan agus chùram dha luchd-tadhail. 'S e an t-adhbhar, co-dhiù gu ìre, gun d' fhuair am pròiseact seo an duais seo ach mar a tha maoir a' phròiseict a' toirt seachad turas a tha dha-rìribh farsaing agus drùidhteachd. Tha an duais a' tighinn goirid às dèidh dha inbhe òir ga toirt don phròiseact leis an Sgeama Gnìomhachais 'son Turasachd Uaine. Tha iolairean Muile a' tarraing mòran luchd-turais chun an eilein agus a' cur suas ri £5m a-steach a dh'eaconamaidh an àite.

Mu dheireadh, rinneadh ath-sgrùdadh air Oighreachd na Coille Nàiseanta (NFE) a rèir Inbhean Dearbhachd Choilltean na Rìoghachd Aonaichte (UKWAS) – agus ràinig i na h-inbhean gun trioblaid sam bith. Tha seo na mholadh mòr air na sgiobaidhean air feadh na dùthcha a tha ag obair gu dìcheallach a’ libhrigeadh sreath de bhuannachdan seasmhach dha daoine, coimhearsnachdan, bith-iomadachd is dhan eaconamaidh.

Tha am pròiseas aig UKWAS stèidhte air leasachadh maireannach a rèir slatan tomhais seasmhachd. Le Iomairt Choilltean na h-Alba ag obair chum dèiligeadh ris na duilgheadasan a thàinig gu bàrr tron sgrùdadh, chaidh a’ bhuidheann a mholadh airson deagh chleachdadh ann an diofar roinnean dhe h-obair. Chaidh sgrùdadh a dhèanamh air grunn choilltean ann an diofar sgìrean – gun mòran fios ro-làimh – agus chaidh am meas a bhith air an obrachadh is làimseachadh aig àrd-inbhe.

Tha an taobh eile de dh’obair FCS a cheart cho cudromach agus às dèidh ùine mhòr ga dheasachadh, tha am Sgeama Tabhartais Coilltearachd – pàirt de Phrògram Leasachaidh Dhùthchail na h-Alba (SRDP) 2014-2020 – a-nise fosgailte. Tha mi an dòchas gum bi an sgeama seo na bhrosnachadh dha uachdaran barrachd chraobhan a chur ach an coilean an dùthaich ar targaidean àrd-amasach a thaobh planntachadh agus atharrachadh cliomaid.

Bheir an sgeama seo seachad taic ‘son fearann coillteach a chruthachadh agus ‘son farsaingeachd mhòr de dh’iomairtean a thoirt air adhart a leasachadh làimhseachadh fearann coillteach. Tha sinn air sreath mhòr de cho-labhairtean is làithean trànaidh a chumail dha luchd-obrach nan Oifisean Glèidhteachais, uachdaran fearann coillteach is àidseantan, le comhairle mu choinneamh riaghailtean an sgeama ùir.

Tha fios agam gu bheil e fhathast na dhuilgheadas dhuinn fearann coillteach ùr a chruthachadh aig ìre chunbhalach. Le feadhainn dhe na h-uachdaran a’ feitheamh ri fosgladh an sgeama ùir chaidh cuid de dh’iarrtasan ‘son planntachaidhean a chumail air ais, ach leis an sgeama a-nise fosgailte, tha mi an dòchas gun gabh saoghal na coilltearachd na cothroman mòra ‘son barrachd sgeamaichean a’ planntachaidh fearann-coillteach.

Tha FCS air prìomhachas a chur air dèiligeadh ris na bagairtean mu choinneamh slàinte chraobhan na h-Alba, agus tha luchd-obrach a' cur ghoireasan gu feum a chum dèiligeadh ri galaran ann an Alba mar-thà agus gus cumail feadhainn eile a-mach às an dùthaich.

Tha roinn na coilltearachd air a bhith ri obair mhòr gus dèiligeadh ri sgapadh a' ghalair *Phytophthora ramorum* air learag. Thòisich obair chom-pàirteachail air feadh na roinne aig deireadh 2010 nuair a nochd an galar an toiseachd air learag an taobh siar na h-Alba. Rinneadh leasachadh mòr air an obair seo seo nuair a chunnacas àrdachadh mòr an àireamh chraobhan a' fulang leis a' ghalair an iar-dheas na h-Alba an 2013 le mu 5,000ha de dh'fhearann learaig a' nochdadh chomharran a' ghalair.

Chaidh 14 sgiobaidhean-buana timcheall a' leigeil 600ha de chraobhan learaig air an NFE a bha a' fulang ann an Gall-Gàidhealaibh, bha seo mar phàirt de ro-innleachd gus dèiligeadh ris a' ghalair agus a' bhuidh na lùib. Chaidh obair mhòr a dhèanamh ann an co-bhuinn le uachdaran agus le roinn na coilltearachd a' toirt seachad cuideachadh chum dèiligeadh ris a' ghalair air talamh prìobhaideach.

Fhuair na sgiobaidhean-buana làmh an uachdair air a' ghalair an 2014 le cho tioram sa bha an samhradh a' bhliadhna sin. Tha ìre a sgaoilidh – agus ìrean gabhaltachd – air crìonadh gu mòr anns an ear-dheas, le sgrùdaidhean fon adhar a' sealltainn nach eile ach 50ha de chraobhan learaig a' fulang às ùr leis a' ghalair ann an ceàrnaidhean eile de dh'Alba.

Rinn FCS sgrùdadh bhon adhar ann an 2014 a' coimhead ri sgaoileadh a' ghalair agus chaidh iad thar 90% den fhearann-coillteach an Alba far a bheil craobhan learaig a' fàs – ag innse gun robh beagan nas lugha na 400 'làraichean amharasach', le dearbhadh às dèidh làimh nach robh an galar beò ach ann an 20 dhe na làraichean. Cha ghabhadh dearbhadh cinnteach a dhèanamh air 47 làraichean agus nithear measadh orra a-rithist as t-earrach 2015.

Rinneadh obair mhòr air Oighreachd na Coille Nàiseanta a chum libhrigeadh Amasan Riaghaltas na h-Alba – bho fhàs seasmhach san eaconamaidh, le deagh làimhseachadh na h-oighreachd airson fiodha, gu cuideachadh gus coileanadh thargaidean nàiseanta a thaobh lùghdachadh shilteachan carboin tro phlanntachaidhean ùra. Tha an Riaghaltas cuideachd le amasan poileasaidh ùra a' cur an aghaidh eas-aontarachd a chum co-chomann nas cothromaiche, a' toirt barrachd ùghdarras dha coimhearnsachdan agus a' cur an sàs ath-leasachadh an fhearainn, leis a' Choimisean a' cumail taic ri gach tè dhe na targaidean seo.

Anns a' cho-theagasg seo, tha mi toilichte gu bheil fàs maireannach a' tighinn air luach agus cudrom choilltean ann am bailtean. Tha aon eisimpleir math ann aig an *Cuningar Loop*, pròiseact luach £5.7m a' dèanamh pàirc choillteach ùr tharraingeach a-mach à 15ha de thalamh fàsaichte air bruaichean na Cluaidh.

Fhuair am pròiseact seo, a tha a' fosgladh as t-samhradh 2015, taic tron *Legacy 2014 Active Places Fund*, bho Mhaoin Ghoireasan Spòrs *SportScotland* agus taic-airgid bho FCS; le buidseat de £571,500; a' cruthachadh goireas-spòrs a tha nas motha agus nas fheàrr na bhathas an dùil aig an toiseachd. Mar phàirt den ghoireas-spòrs ùr bidh a' chiad phàirc-ulbhagan ann an Alba, goireas-cluiche deuchainneach agus *trim trail*. Tha cumadh àraidh na làraich a' ciallachadh gun tèid aca air ceithir slighean bhaidhsagalan beinne a chruthachadh: slighe balans, slighe tòiseachaidh, slighe leasachaidh, agus slighe *pump* dha rothaichean adhartach.

Chaidh an iomairt seo a thoirt air adhart gus ceàrnaidhean uaine a chruthachadh far nach robh iad ann roimh, a' brosnachadh dhaoine gus faighinn a-mach an doras agus a dhol an sàs ann an cur-seachadan beòthail. Tha e riatanach gum bi na cothroman seo fosgailte do na h-uile agus chan ann dìreach dha daoine a tha a' fuireach air an tuath is dha daoine beartach le càraichean is cothrom faighinn a-mach chun nan goireasan air leth aig FCS air feadh na dùthcha.

Tha Iomairt Choilltean na h-Alba air leantainn oirre a' rannsachadh agus a' cruthachadh chothroman air sgeamaichean haidhdro is gaoithe air Oighreachd na Coille Nàiseanta, sgeamaichean a nì adhartas a chum na targaid 2020 airson 2GW de chomas-lùths

suidhichte (*'installed capacity'*) air an Oighreachd. Aig an àm seo, tha comas-lùths 900MW ann. Tha toradh na h-obrach seo – obair a tha a' toirt cothrom do choimhearsnachdan na sgeamaichean seo a bhith fo shealbh aca air neo earrannan a bhith aca sna sgeamaichean – air thighinn beò a-nise leis a' chiad sgeama haidhdro fo shealbh na coimhearsnachd air tòiseachadh faisg air Calasraid san t-Samhain 2014, agus a' chiad sgeama le earrannan aig a' choimhearsnachd air tòiseachadh faisg air Loch Àlainn anns an Fhaoilleach 2015.

Tha am prògram soirbheachail airson tuathanasan tòiseachaidh air cumail air a' fàs. Dh'fhosgail trì tuathanasan tòiseachaidh ann an 2014/15, a' ciallachadh gun deach deich tuathanasan tòiseachaidh a chruthachadh bhon thòisich am prògram.

Chaidh teanantan a-steach dhan tuathanas aig Achadh na Mòine, a' chiad thuathanas tòiseachaidh air a' Ghàidhealtachd, anns a' Ghiblean 2015. Bidh cothroman air an tuathanas seo airson planntachadh fearann coillteach ùr. Air an tuathanas aig *Woodfold*, Ràth a' Mhuigh, faisg air Hunndaidh, tha measgachadh math de thalamh àitich, ionaltradh agus ionaltradh bochd maille ri taigh-tuathanais agus togalaichean eile. Dh'fhàilig air an tuathanas tòiseachaidh aig *Gourdie* faisg air Dùn Dè teanant a lorg sa Ghiblean an-uiridh, ach rinneadh leasachadh air agus thèid e air a' mhargaidh a-rithist mar ionad tuathanais nas 'cuimsichte'. Thèid an talamh math àitich aig *Gourdie* a leigeil a-mach air màl airson obrachadh mar talamh-àiteachais mar a bha e roimhe.

Bu mhath leam taing a thoirt don luchd-obrach air fad airson mar a chuir iad uile ri coileanadh nam builean seo agus tha mi a' coimhead air adhart ri bliadhna shoirbheachail eile a' cur taic ri soirbheachas roinn na coilltearachd ann an Alba.

Amanda Bryan

Cathraiche Comataidh Nàiseanta na h-Alba

MANAGEMENT COMMENTARY

STRATEGIC REPORT

Status, Strategy and Business Model

Forestry Commission Scotland came into being on 1 April 2003 and works as part of the Scottish Government's Environment and Forestry Directorate. It is our job to advise and support Scottish Ministers on all forestry matters.

Forest Enterprise Scotland is the delivery arm and has operated as the executive agency of Forestry Commission Scotland since 1 April 2004. Its remit is to manage the National Forest Estate.

Scottish Ministers set out their vision for forestry in Scotland in the Scottish Forestry Strategy, published in October 2006. It guides the development of Scotland's expanding forest and woodland area focusing on the key priorities over the next decade but also looking ahead to the second half of the century. The current Scottish Forestry Strategy (www.forestry.gov.uk/sfs) is due for review in 2016.

The aims and objectives of Forestry Commission Scotland flow from the Scottish Forestry Strategy and from the wider objectives of Scottish Ministers. As a predominately rural activity, forestry has a major part to play in delivering rural development, but also has an increasingly important role in helping to deliver other Scottish Government objectives to make Scotland a wealthier and fairer, healthier, safer and stronger, smarter and greener country. To deliver these strategic objectives the following Scottish Forestry Strategy outcomes and objectives, which are relevant in urban as well as rural areas, have been set:

- **Improved health and well-being of people and their communities** by assisting community participation; enhancing opportunities for health and enjoyment; and contributing to growth in learning skills.
- **Competitive and innovative businesses contributing to the growth of the Scottish economy** by developing a more efficient and competitive timber supply chain; facilitating the markets for forest products; facilitating rural business diversification and development; and increasing the contribution of forestry to tourism.

- **High quality, robust and adaptable environment** by helping to tackle climate change; contributing positively to soil, water and air quality; contributing to landscape quality; protecting and promoting the historic environment and cultural heritage; and helping to protect and enhance biodiversity.

Forestry Commission Scotland receives its funding from the Scottish Government. The 2014-15 annual budget for Forestry Commission Scotland is approved by the Budget (Scotland) Act 2014 and revised by the 2014-15 Autumn Budget Revision to the Budget (Scotland) Act for the year ending 31 March 2015; and the 2014-15 Spring Budget Revision to the Budget (Scotland) Act for the year ending 31 March 2015.

The main funding covers support for forestry and the rural economy, including grants paid to private woodland owners, and funding for Forest Enterprise Scotland to allow it to manage the National Forest Estate in accordance with the economic, environmental and social objectives set by Forestry Commission Scotland. EU funding is also received via the Scottish Government's Rural Payments and Inspections Directorate to support grants under the Scottish Rural Development Programme.

For national accounting purposes, Forest Enterprise Scotland is designated as a public corporation by the Office of National Statistics in accordance with European System of Accounts (ESA) 95. Accordingly, it is outside the departmental boundary for resource accounting purposes, with its grant funding reflected in the Forestry Commission Scotland resource accounts.

Forest Enterprise Scotland also generates income through timber production and renewables on the National Forest Estate. As part of the overall management of Scotland's National Forest Estate land sales and land purchases are managed through a 'repositioning' programme whereby over a period of five years, surplus land and other property is offered for sale with revenue raised then funding land purchases.

Our work is based on the following values:

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

Business Review

Forestry Commission Scotland and Forest Enterprise Scotland contributes in many ways to the Scottish Government's national priorities. The following sections highlight some of the most significant items that have affected the organisation this year. The Annual Review, published separately, provides further detail and information on these and other achievements.

During 2014-15 Forestry Commission Scotland and Forest Enterprise Scotland continued to deal with a number of priority issues including:

- future structure of the organisation;
- transition to the Scottish Rural Development Programme 2015 – 2020 and the introduction of the new Forestry Grant Scheme;
- tree health;
- health and safety within the forestry sector;
- maintaining and improving the productive capacity of Scotland's woodlands.

The main risks and uncertainties facing Forestry Commission Scotland are detailed below along with the work being undertaken to mitigate them:

Organisation

Work continued on the further decentralisation of services from Central Services to Forestry Commission Scotland and Forestry Commission England. The current cross border Woodlands Policy Enabling Programme and Shared Services programmes will support this work, and may speed up if either or both countries agree that it is the right time to do so.

At the same time, FCS has continued to increase the level of partnership working with Scottish Government divisions and associated bodies, for example RPID, SNH, SEPA, and the National Park Authorities.

Forestry Policy

Policy work included the publication of guidance on non-native invasive species informing managers on how to comply with the Wildlife & Natural Environment (Scotland) Act and relevant parts of the UK Forestry Standard Biodiversity Guidelines.

Guidance on restocking of trees on peat was also finalised, along with continued implementation of the control of woodland removal policy to reduce woodland loss and ensure compensatory planting.

Actions identified by the completion of the work of the Native Woodland Survey of Scotland were started, and included the identification of native woodland restoration in the new Scottish Biodiversity Strategy Routemap as a priority project under habitat restoration, and work on the development of the new Forestry Grant Scheme Options.

NWSS data was also made available through an online visualisation tool developed in collaboration with SEPA and hosted on Scotland's Environment website.

Tree health

Scotland's forests, woodlands, trees and other plants are continuing to face a range of plant health threats, resulting mainly from globalisation, particularly in relation to the plant trade. This is further compounded by climate change adding an additional layer of uncertainty when predicting the future impacts of pests and pathogens.

The Scottish Tree Health Advisory Group has been restructured to provide a steering group supported by three working groups: Sustainable Forest management; plant production; and wood use & processing. Forestry Commission Scotland is also continuing to work closely with Scottish Government officials, other parts of the Forestry Commission, Defra, Fera and APHA (Animal Plant Health Agency) to ensure a co-ordinated approach to plant health in GB. Governance has been strengthened with the appointment of a UK Chief Plant Health Officer, the publication of a UK Plant Health Risk Register and the formation of a GB & NI Tree Health Advisory Group.

Work has also started with Scottish Government colleagues on development of a Plant Health Strategy for Scotland. Forestry Commission Scotland has now significantly increased support for this key area of sustainable forest management and has continued to focus effort on: aerial surveillance; awareness raising, including biosecurity practices; capacity building; strategic planning and associated risk-based actions; coordination with plant health colleagues in other parts of the Scottish Government and the Forestry Commission; providing support measures and advice; and longer-term resilience building. Scottish action plans for *Chalara*, *Dothistroma* and *Phytophthora ramorum* (on larch) are being reviewed to reflect current circumstances.

Financial Highlights –

The Forestry Commission Scotland Resource Accounts (page 36 – 109) are prepared in accordance with the Accounts Direction issued by Scottish Ministers under section 45(1) of the Forestry Act 1967.

Forestry Commission Scotland

	Outturn 14/15 £m	Outturn 13/14 £m
Policy and Administration	8.9	8.8
Scottish Rural Development Programme (SRDP)	17.0	17.8
Forestry Development Programme	5.2	7.1
Timber Transport Fund	2.6	3.9
Funding for Forest Enterprise Scotland	22.7	31.2
Total spend	56.4	68.8

Total available DEL funding for Forestry Commission Scotland, following the Spring Budget Revision, was £59.0m, leading to an overall underspend of £2.6m. The majority of this underspend (£1.2m) was due to the timing and cancellation of SRDP grants. Further underspends occurred in Forestry Development Programme and Timber Transport due to un-submitted claims or payments made which were lower than original claim value. In comparison to 2013–14, overall spend was down by 18.0%. This was mainly due to last year's capital expenditure on shovel ready funding from Scottish Government. There were no similar projects in 2014-15. SRDP spend decreased by 4.4%, expenditure on Forestry Development Programme decreased by 26.7% and Timber Transport funding decreased by 33%. Policy & Administration spend remained constant.

Forest Enterprise Scotland

Forest Enterprise Scotland incurred a surplus on its Statement of Comprehensive Net Income of £143.6 million (2013-14: restated surplus of £11.1 million).

Operating income was £79.5 million which was an increase of £1.6 million on 2013-14. Notable variances are:

- The income from sales of timber was £65.8 million which was an increase from £65.2 million in 2013-14. This was due to an increase in programme (partly due to tree health issues), prices remained buoyant, good weather and additional Timber Crop Compensation from Windfarm developments.

Operating expenditure was £109.4 million which was an increase of £1.6 million on 2013-14. Notable variances are:

- Expenditure on forest protection and maintenance at £35.8 million was an increase of £5.8 million on 2013-14. This was due to a combination of increased expenditure on road maintenance and restock as the battle against tree disease continues.
- Expenditure on management and development of the estate at £4.9 million was a decrease of £7.0 million on 2013-14. This was due to less impairment costs on land and buildings during 2014-15.

Other costs are described below:

- The net cost of Communities, Recreation, and Tourism (CRT) was £15.5 million which was an increase of £3.4 million on 2013-14. Significant additional funding was received on Urban Woodland projects in Central Scotland. This more than offset the additional spending across most CRT activities.
- The net cost of estate improvements was £10.5 million which was a decrease of £1.8 million from 2013-14. Planning delays and adverse weather have led to a decrease in expenditure on new road construction.

During 2014/15 2,748 hectares of land were purchased for £8.8 million. The majority of this related to the purchase of Upper Rothiemurchus, a Caledonian pine forest on the edge of the Cairngorm Mountains, this equated to 2,339 hectares at £7.4 million.

Forest Estate and Biological assets values were revalued by Smiths Gore during 2014-15. Forest Estate timber was revalued upwards by £7.8 million representing a 1% increase in value. Biological assets were revalued upwards by £184.1m representing a 21% increase. These movements reflect the current market based on positive drivers, underlying land values, biological growth and rising demand for construction and biomass.

After adjusting the total deficit for items not involving the movement in cash and for capital expenditure and receipts, the net cash funding received from Forestry Commission Scotland was £22.7 million (2013-14: £31.2 million).

Key Performance Indicators

The Key Agency Targets set by the Forestry Commission National Committee for Scotland for 2014-15 for Forest Enterprise Scotland to manage, and the actual outturns, verified by Internal Audit at the Forestry Commission, were: -

SFS Objective		Targets	Unit Measurement	Target	Achieved	Yes/No
High quality, robust and adaptable environment	1	National Forest Estate independently certified (i.e. FSC and/or PEFC) as being sustainably managed.	Yes/No	Yes	Certificated	Yes
	2	Area of new woodland creation on the National Forest Estate.	Ha	1000*	340 - Actual - 2014/15 530 - 3 year average	No
	3	Percentage of notified features on designated sites in favourable or unfavourable recovering condition	%	90%	95%	Yes
Competitive and innovative businesses	4	Volume of wood harvested on Scotland's National Forest Estate	km ³ obs +/-5%	3629	3280 90%	No
	5	Percentage adherence to delegated expenditure and income targets.	+/-5%	£16.5M	£15.1M 92%	No

* Target is based on a rolling three year average (2012/13, 2013/14 and 2014/15)

Key Achievements

Overview

This section summarises what FCS and its partners have delivered during the year against the three Scottish Forestry Strategy visions: -

- Improved health and well-being of people and their communities;
- Competitive and innovative businesses contributing to the growth of the Scottish economy; and
- High quality, robust and adaptable environment.

Improved health and well-being of people and their communities

The 2014 **Commonwealth Games** in Glasgow attracted attention from across the world. The Forestry sector's lasting contribution to the 2014 Games Legacy comprises a network of 14 Commonwealth community woodlands in and around Greater Glasgow, along with an associated walks programme in partnership with 'Paths for All'. During the first six months of the programme nearly six thousand people attended events across the network, whilst the Commonwealth community woodlands formed a major feature at 'Green2014' - a sustainable legacy exhibition at the Lighthouse, Glasgow.

In total to date, over 18,000 people have attended organised activities and events across the 14 sites. One of the key woodlands is Cuningar Loop – a 15 hectare vacant & derelict site strategically close to the former Commonwealth Athletes village beside the river Clyde, which Forest Enterprise is transforming into an attractive community greenspace.

The **Central Scotland Green Network** is one of 14 national developments set out in the Scottish Government's National Planning Framework 3. During the year, the Central Scotland Forest Trust transformed into the Central Scotland Green Network Trust (CSGNT) - a company limited by guarantee and of charitable status. FCS plays a key role in CGGN governance through Board representation and other forums, through funding the CSGN Development Fund and through the Woodlands In and Around Towns (WIAT) Programme.

The FCS **Woods for Health** programme continues to attract recognition of its aspiration to improve health through woodland greenspace environments. During the year, the Branching Out programme (Greenspace/woodland and conservation on referral for people using mental health services) won the PAHA (Physical Activity and Health Alliance) NHS Scotland 2014 award; whilst Larbert woods - adjacent to Forth Valley Royal Hospital near Falkirk (Scotland's largest ever NHS construction project) - was shortlisted for the PAHA Environment Awards. In this collaborative partnership with Scottish Government and the

Environment and Health sectors, FCS funded woodland improvements and trails (including a loch side timber pier and viewing platform) for the benefit of patients, NHS staff and the local community.

The **National Forest Land Scheme (NFLS)** continues to play a key role in transferring public assets (in this case areas of Scotland's National Forest Estate) to communities and it was commended by the Land Reform Review Group as being an exemplar of Scottish Government support for greater community ownership. During the year several communities took ownership of a local area of forestry including Aigas, Inverness-shire, and Kirkton, Loch Carron.

Through the NFLS, a number of communities have taken forward their interest in their direct development of renewable energy schemes on the national forest estate, under leasing arrangements. The first community to apply to develop a renewable hydro scheme under the NFLS (Callander Development Trust) completed the construction phase of their project and their scheme is now generating power. The second project at Garmony on the Isle of Mull has almost finished construction. The largest affordable housing site on former land managed by FCS (at Smithton, Inverness) is under construction and 25 units are expected to be occupied in 2016.

Competitive and innovative businesses contributing to the growth of the Scottish economy

Annual timber production continues to increase to record highs, reaching 8.6million cubic metres over bark standing in 2013. FCS published a 50-year forecast for softwood availability and the first ever 25 year hardwood availability forecast.

There continues to be healthy demand for the Strategic Timber Transport Fund (STTF) with a 2013/14 spend of around £3.9m including £0.8m for the Timberlink Argyll to Ayrshire public service contract shipping operation. With the announcement that STTF will continue in 2015/16 to a value of £3m, the Strategic Timber Transport Scheme recently approved 16 projects (seven of these being on the public road network) using £2.2m of STTS support giving a total projected spend of £4m including partnership funding.

High quality, robust and adaptable environment

Following last year's launch of the **Native Woodland Survey of Scotland (NWSS)** FCS convened a short-life working group to propose actions in response to the findings about native woodland extent and condition. This work is informing delivery, both of the Scottish Forestry Strategy and the Biodiversity



Strategy. A new online visualisation tool was developed to examine NWSS results, enabling non-GIS experts to analyse complex regional and national data.

Another interactive tool relating to climate trends was developed during the year, enabling stakeholders (including forest managers) to consider ways of adapting forests to better withstand the impacts of climate change. The Native Woodland Survey of Scotland gained an 'Innovation Award' at RSPB's Nature of Scotland Awards. On the National Forest Estate, work continued on restoring native woodlands and establishing a plan for semi-natural woodlands based on NWSS data. The publication *Action for the environment on Scotland's National Forest Estate* was launched in 2015, updating stakeholders on work undertaken on the estate during the last five years.

This year (2014/15) saw significant progress on developing guidance and support to help forest managers protect and **improve the natural environment**. The importance of managing woodlands to benefit native species and control non-native species was underlined in work to create red squirrel refugia, helping red squirrel populations recover in areas blighted by squirrelpox, the publication of a guide to managing invasive and non-native species and the development of a national approach to controlling invasive rhododendron.

Research on the multiple benefits of woodlands planted to improve water quality allowed the development of a new targeted higher payment rate in the Forestry Grant Scheme. FCS worked with partners both to identify areas with the most potential for this to happen, and ways in which to promote it. The sub-optimal legacy of previous planting is also being tackled, for example by FCS finalising and promoting new guidance to help forest managers decide the best future options for afforested peatland.

Demand for FCS-led training on **forest landscape design** is buoyant. Along with a new FC publication entitled 'Design Techniques for Forest Management Planning' an on-line training course for forest managers on Forests and the historic environment was launched.

Cross theme developments

Following unanimous Parliamentary support for the adoption of Scots Pine as Scotland's **National Tree** a programme of events and activities celebrated, promoted and showcased the National Tree during the year.

The new **Scotland Rural Development Programme** has opened for business, with support for forestry activities via a bespoke Forestry Grant Scheme. This includes a wide range of forestry options including woodland creation, management of existing woodlands, forest plans, restructuring regeneration, public access, priority habitats and species, deer management, forest infrastructure, tree health measures, agro-forestry and timber harvesting and processing.



Following the **Woodland Expansion Advisory Group** recommendations, a technical report and twelve case studies were published on the FCS website, comprising examples of effective farming and woodland management/creation synergies, including costs savings and revenue streams.

Aerial surveillance of *Phytophthora ramorum* infections on larch confirmed early indications that 2014 would not see a repeat of the previous year's large-scale expansion of the disease in south west Scotland. Latest evidence suggests that this reflects the significantly drier conditions during the 2013 main sporulation period in late summer/early autumn. There were few signs of major expansion within the Management Zone and only a handful of new, relatively minor infections confirmed elsewhere in Scotland.

Increased surveillance capacity and expertise has led to increased detection of **Chalara** in the wider environment in the south eastern half of Scotland, including the Buffer area, with good evidence to confirm its presence significantly pre-dated 2012 in many areas. However, it remains likely that this fungal pathogen will remain significantly under-reported as it can be extremely hard to spot in its earliest stages.

Summary data from extensive surveys on the national forest estate since 2006 have indicated the presence of **Dothistroma** needle blight (DNB) in 71% of surveyed Corsican pine sub-compartments, and 26% and 21% respectively in Lodgepole pine and Scots pine sub-compartments. To-date, DNB has been detected in over 11,000 ha of pine woodland on the national forest estate. This fungal disease has now also been detected in approximately one quarter of the 84 Caledonian Pinewood Inventory (CPI) sites. Although the impact in CPI sites currently appears to be modest, monitoring of disease progression will continue. DNB also remains a serious cause of concern to the forest tree nursery sector, not only from a business risk perspective but also in relation to future plant supply requirements from the wider forestry sector.

FCS instigated an enhanced surveillance and containment strategy for the **Pine tree lappet moth** (Ptlm) in the Beaully catchment area, this to reflect current uncertainties about its status as a native/non-native as well as its damage potential in Scottish conditions.

Efforts continue to identify the full extent of the already widespread presence of *Phytophthora austrocedri* (on juniper) in Scotland, and this is likely to have a significant bearing on the appropriateness of statutory or voluntary measures to manage this pathogen. Likewise, and as part of a wider UK initiative to assess the spread and severity of *Phytophthora lateralis* on (mainly) Lawson's cypress and its many cultivars, the Arboricultural Association (including its Scottish branch) asked arborists to identify the locations of potentially diseased Lawson's cypress and to complete a relatively simple survey report form.



As part of ongoing efforts to harness citizen science potential in tackling tree health issues, a completely revamped '**TreeAlert**' tool (a web-based system for reporting tree health issues) was launched at year-end and dove-tailed with the launch of Observatree – a tree health early warning system based on the engagement of a network of some 200 trained volunteers across GB.

Co-sponsored by FCS, **Scotland's Finest Woods Awards** - run by an independent charity, Scotland's Finest Woods, since 2005 - celebrates the contribution that woodlands can make to the people of Scotland and to its environment and economic prosperity. The Awards celebrate outstanding contributions to the creation and management of Scotland's finest woods by individuals, local communities, companies and schools.

COMMUNITY AND CORPORATE SOCIAL RESPONSIBILITY

Partnerships and Communities

Forestry Commission Scotland is committed to working in partnership with communities and organisations as the best way to unlock the potential of Scotland's woodlands and forests. We:

- welcome and encourage the involvement of local communities and forest user groups;
- aim to be inclusive in all that we do, engaging with all sectors of the local community;
- promote the engagement of people in the process to develop plans for their local woods;
- provide up to date information about national forests, and any special opportunities and news;
- advertise jobs and contracts locally;
- will be a good neighbour and a responsible land manager;
- will work with people from forestry, and from other sectors such as education, health and tourism, to make the most of the range of benefits from woods;
- have established regional and national Forestry Forums to advise us on the development and implementation of the Scottish Forestry Strategy; and
- will play our part in Community Planning Partnerships where we can add value.

Human Rights

- Article 2 Right to Life - the right of the general public to be kept safe from a real risk of serious injury or loss of life are captured by our approach and management of health and safety.
- Article 6 Right to a fair trial - this includes a fair trial when there is dispute about someone's civil rights which include employment law. Our HR policies and procedures are compliant with employment law.

- Article 8 Right to respect for private and family life - this includes accessing, handling and disclosing of personal information which are captured by Data Protection and Information Security.
- Article 9 Right to thought, conscience and religion and Article 14 Prohibition of discrimination - equality and diversity impacts on policies and procedures are captured by the EqA process
- Article 11 Freedom of assembly and association - this includes industrial relations which we comply with as they are also covered by statutory requirements.

Health and Safety

Policy

It is the policy of Forestry Commission Scotland to ensure the health and safety of all its employees, and to provide appropriately for the health and safety of others, including contractors, visitors, neighbours and members of the public who use our forests.

Strategic leadership on health and safety within the forestry industry continues to be delivered through the Forest Industry Safety Accord (FISA). This sets out the commitment that each organisation, and the sector at large, can make to raise the standard of health and safety in their place of work. Forestry Commission Scotland is a signatory to the Accord.

The Forestry Commission Scotland Safety Committee has a remit to assist its Management Boards and Safety, Health and Environment team in raising awareness, promoting, achieving and sustaining a culture of attitudes and behaviour. The aim is for all staff to understand and make the health and safety of themselves, and other people affected by their work, a priority. The committee provides a focus for joint participation between its Management Boards, staff, and trade union safety representatives.

Activity

The Forestry Commission Safety Strategy was launched in 2013 which set out the priorities to enhance our safety culture. This year, every board member attended Health & Safety Leadership training and all staff attended THINK SAFE: STAY SAFE training to ensure a shared understanding and build momentum in changing our culture to put Health & Safety at the heart of everything we do.

Health and safety continues to be a standing agenda item for many meetings and the Health & Safety Climate Tool was launched in January 2015 with a response rate of over 70%. Analysis is now taking place and an action plan develop for 2015-16.

Accidents

The following figures set out the incidence of reportable accidents (those causing incapacity for more than three days) for all staff in 2014-15. The actual number of accidents in 2014–15 was 8, however the Health and Safety Executive require accidents to be reported per 100,000 employees. This results in an incidence rate of 936. There are 4 RIDDOR reports for Lyme or similar tick borne disease.

Year	No of accidents per 100,000 employees
2014-15	936
2013-14	607
2012-13	501

In previous years, the figures were reported per 100 employees and are as follows:

Year	No of accidents per 100 employees
2011-12	1.09
2010-11	0.71
2009-10	0.73
2008-09	0.57
2007-08	1.03

People

Work continued on the implementation of the Forestry Commission People Strategy 2012-16 which sets the strategic direction for the next five years. The key themes being:

- Safety, Health and Environment;
- Deployment of People;
- Employee Skills;

- Equality and Diversity;
- Pay and Recognition.

In 2014-15 we have:

- continued to support managers to ensure the Forestry Commission meets its duty of care to employees and its legal obligations as an employer;
- continued to support the Forest Industry Safety Accord with involvement in a number of national steering groups;
- carried out Health and Safety audits, including Risk Assessment;
- provided occupational health surveillance for those employees engaged in physical or hazardous activities, including HAVS and Audio examinations;
- continued to embed the Civil Service Competency Framework into the Performance Management System and commenced PMS audits to ensure every employee has at least two performance reviews each year and has a meaningful Forward Job Plan and Individual Learning Plan;
- introduced gender balance and independence on all selection panels to enhance the recruitment and selection process;
- continued to simplify our Human Resources policies and procedures, publishing the new versions in a standard format; and

enhanced the Talent Management Programme, supporting high performing individuals to undertake a range of development opportunities so they are able to compete for senior management positions in the coming years.

Equality and Diversity

The Forestry Commissioners and Executive Board have continued to regard the Commission's Equality and Diversity agenda as a high priority for the organisation. Progress was discussed at their meetings throughout the year.

At the end of the financial year, the split of staff by gender for Forestry Commission Scotland including Forest Enterprise Scotland was:

Level	Male (FTE)		Female (FTE)		Total (FTE)	
	FCS	FES	FCS	FES	FCS	FES
Director	0	3	1	0	1	3
Senior Manager	9	25	3	5	12	30
Employee	63	630	70	194	133	824

Areas of specific focus this year included:

- significant improvement of gender balance in senior posts with females appointed in roles such as Director for Environment & Forestry and Chair of Commissioners;
- ensuring that the Commission's internal processes and procedures comply with the Equality Act, and keeping managers and staff informed of legislative requirements;
- publishing the Commission's annual Monitoring Report by the required deadline setting out how well the Forestry Commission is doing in meeting its Equality and Diversity objectives;
- implementing the Diversity Strategy and Equality and Diversity Objectives for 2012-16;
- trialled a new unconscious bias course with the Talent Management Programme before further roll out across the organisation;
- continuing to provide a range of services and facilities to diverse communities across the Commission's local offices. A range of outreach services being offered across the Commission are outlined in our Monitoring Report and these include access trails and improved visitor centre facilities for those with a disability.

Learning & Development

We continue to invest in the training and development of our staff. In 2014-15 we have:

- developed our managers capability at all levels across Forestry Commission Scotland through the Management Development Programme (MDP) aimed at three levels of managerial responsibility: first time; tactical and strategic;
- enhanced our Talent Management Programme, providing additional support and career development opportunities for 10 successful applicants;
- selected and recruited 2 graduates for the 2014 intake onto the Graduate Development Programme;
- created an internal Mentoring Programme, enlisting and training 19 mentors;
- developed closer working relationships with appropriate organisations and individuals within other public sector Learning and Development providers, including the Scottish Government, to develop appropriate, cost-effective learning opportunities;



- investigated and secured a contract with Civil Service Learning, ready for launch on 1st April 2015, and providing Forestry Commission Scotland staff with access to a vast new pool of new learning and development resources;
- supported the Forest Sector Skills Unit in Forestry Commission Scotland which provides opportunities to develop employability skills required by the forest industry through Apprenticeships and Student Placements. In 2014-15 we supported 13 student placements and a total of 25 apprenticeships, 11 of those apprentices joining in 2014-15.

Business Sustainability

Forestry Commission Scotland is committed to reducing the environmental impact of its business activities, and in line with the Public Bodies Duties as set out in the Climate Change (Scotland) Act 2009, has published an [Environmental Policy](#) and developed and implemented an effective Environmental Management System (EMS). Key features of our EMS include publishing a comprehensive environmental policy, setting annual targets for reducing carbon emissions from travel and energy use; maximising recycling and minimising waste; and reducing water consumption. The National Forest Estate has UKWAS certification and Forestry Commission Scotland has ISO14001 accreditation.

Our Annual Sustainability Report for 2014-15 can be found on our website at www.forestry.gov.uk.

Jo O'Hara
Accountable Officer

July 2015

Silvan House
231 Corstorphine Road
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EH12 7AT

DIRECTORS' REPORT

Details of Directors

The members of the Forestry Commission Scotland Management Board during the year were:

- Dr Bob McIntosh, Director, Forestry Commissioner, Director Environment and Forestry, Scottish Government (to 27 Feb 2015)
- Nicola Whitaker, Head of Corporate Services
- Simon Hodge, Chief Executive, Forest Enterprise Scotland
- Jo O'Hara, Deputy Director
- Brendan Callaghan, Head of Delivery and Regions
- Ann Robertson, Head of Finance (to 1 March 2015)
- Rosetta Forbes, HR Business Partner (from 21 August 2014)

The Forestry Commission Scotland Management Board is supported by the Board of its Executive Agency, Forest Enterprise Scotland. Members who served on the Board during the year were:

- Simon Hodge, Chief Executive
- Les Bryson, Head of Operations
- Laurie Tyson, Head of Estates
- Alan Duncan, Head of Finance
- Alan Stevenson, Communities, Recreation and Tourism Manager
- Moira Baptie, Head of Planning and Environment (job share)
- Jo Ellis, Head of Planning and Environment (job share)
- Michael Hymers, Head of Corporate Services
- Rosetta Forbes, HR Business Partner (from 21 August 2014)
- Michael Ansell, Head of Forest Renewables
- Donna Hutchinson, Head of Finance (from 9 February 2015)

Register of interests

A register of interests of all Board Members is maintained by the Forestry Commission and published on our website, www.forestry.gov.uk.

Other Disclosures

Personal Data Related Incidents: A theft of a laptop and documents from a car happened in June 2014. All sensitive information was encrypted and no loss of personal data occurred. None of the documents held sensitive or personal information. Further information on the handling of information risk is contained in the Governance Statement.

Sickness absence data: Forestry Commission Scotland and Forest Enterprise Scotland pro-actively manage staff sickness absences with an average number of working days lost per person:

	2014-15	2013-14	2012-13
Forestry Commission Scotland	5	9	5.3
Forest Enterprise Scotland	6.9	5.5	5.4

Holiday pay and overtime: Recent case law has ruled that non-guaranteed (compulsory) overtime and any other taxable allowances that forms part of an employee's normal remuneration should be included in an employee's holiday pay (20 days in accordance with EU Working Time Directive). The Forestry Commission is currently discussing with FCTU an approach for managing overtime going forward.

Estate management strategies: Forestry Commission Scotland is conscious of the many opportunities for alternative development within the National Forest Estate and actively progresses such developments which are compatible with its other objectives and our approach to integrated land management.

This is perhaps best displayed by the proactive approach taken to the development of Renewable Opportunities which is handled by 'Forest Renewables' whose aims are to promote and manage the development of wind and hydropower resources on the National Forest Estate in Scotland in ways that help achieve the Scottish Government's renewable energy policy and the Scottish Forestry Strategy. By doing so Forest Renewables aims to contribute to achieving Scotland's renewable energy targets, to maximise financial returns from wind and hydropower developments on the National Forest Estate and promote benefits for local communities.

Other developments of alternative land uses have historically been progressed in order to maximise value as properties are prepared for sale and where specific circumstances or approaches identify an opportunity, without necessarily having an overall strategy. However since establishment of a Strategic Development Officer post in 2011 it has been



possible to implement a more strategic approach and this is contained within the FES guidance on 'Management of Development Opportunities' (MDO).

The purpose of the MDO is to ensure that Forestry Commission Scotland prioritise resources, contribute towards the objectives contained within Strategic Directions as well as other Scottish Government policy documents whilst engaging with communities, local planning authorities and other stakeholders.

Jo O'Hara
Accountable Officer

July 2015

Silvan House
231 Corstorphine Road
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EH12 7AT



Forestry Commission Scotland
Coimisean na Coilltearachd Alba

Forestry Commission Scotland

Resource Accounts 2014-15

FINANCES

Departmental Accounting Boundary

These accounts incorporate the core-department only. Forest Enterprise Scotland, an executive agency of Forestry Commission Scotland since 1 April 2004, is a public corporation for national accounting. Accordingly, it is outside the departmental boundary for resource accounting and produces its own accounts with its funding contribution reflected in these accounts.

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 1.3.

Supplier Payment Policy

Forestry Commission Scotland complies with the payment policy directed in the Government's Better Payment Practice Code and Scottish Government's Public Finance Manual. Unless otherwise stated in the contract, we aim to pay within the Scottish Government's tighter target of 10 working days from the receipt of goods and services or the presentation of a valid invoice, whichever is the later. An analysis of bill payments, including those made by Government Procurement Card (GPC), for 2014-15 indicates that 94.3% were paid within the 10 day target set by the Government's Better Payment Practice Code.

Arrangements for handling complaints on payment performance are notified to suppliers on contracts.

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

Auditors

The accounts of Forestry Commission Scotland are audited by auditors appointed by the Auditor General for Scotland. No fees were charged for other services.



Disclosure of audit information to the auditors

So far as the Accountable Officer is aware, there is no relevant audit information of which the Forestry Commission Scotland's auditors are unaware. The Accountable Officer has taken all the steps that she ought to have taken to make herself aware of any relevant audit information and to establish that the Forestry Commission Scotland's auditors are aware of that information.

Jo O'Hara

Accountable Officer

July 2015

Silvan House
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Edinburgh. EH12 7AT

REMUNERATION REPORT

Remuneration policy

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

In reaching its decisions on individuals' salary and non-consolidated performance payments, the Senior Pay Committee has regard to the following considerations:

Guidelines circulated by the Cabinet Office implement 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 non-consolidated performance payments. Further information on the work of the SSRB can be found at www.ome.uk.com.

Reporting Officers make 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 non-consolidated performance payment 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, if awarded, is based on their manager's assessment of their performance.

Employment contracts

Civil Service appointments are made in accordance with the Civil Service Commission Recruitment Principles, 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-executives who served during the year are:

	Date of current contract / letter	Unexpired term (months) as at 31 March 2015
Henry Graham	01/07/2013	15
Simon Rennie	28/11/2012	8
Amanda Bryan	31/07/2012	4
Hamish MacLeod	01/04/2012	0
Gordon Mann	01/07/2012	3

AUDITED ELEMENT OF THE REMUNERATION REPORT

Salary and pension entitlements

The salary and pension entitlements of the civil servants who are members of the National Committee and Management Board were

	Salary		Bonus payments		Benefits in kind		Pension Benefits		Total	
	£000	£000	£000	£000	to nearest £100	to nearest £100	£000	£000	£000	£000
	2014-15	2013-14	2014-15	2013-14	2014-15	2013-14	2014-15	2013-14	2014-15	2013-14
Dr Bob McIntosh	100-105	110-115	-	5-10	-	-	21	43	120-125	160-165
David Henderson-Howat	0	40-45 ¹	-	-	-	-	-	3	-	45-50
Jo O'Hara	65-70	30-35 ²	-	-	2,000	-	59	41	125-130	70-75
Nicola Whitaker	60-65	60-65	-	-	-	-	9	4	70-75	65-70
Ann Robertson	35-40 ³	45-50	-	-	-	-	14	19	45-50	65-70
Brendan Callaghan	60-65	60-65	-	-	-	-	11	38	70-75	100-105
Niall Browne	0-5 ⁴	45-50	-	-	-	-	2	20	0-5	65-70
Rosetta Forbes	25-30 ⁵	-	-	-	-	-	20	-	45-50	-

¹ Figure quoted is for period 1st April 2013 to 24th October 2013.

The full year equivalent is 75-80.

² Figure quoted is for the period 7 October 2013 to 31 March 2014 whilst Deputy Director Scotland.

The full year equivalent is 60-65.

³ Figure quoted is for period 1st April 2014 to 1st March 2015.

The full year equivalent is 45-50.

⁴ Figure quoted is for the period 1st April 2014 to 30th April 2014.

The full year equivalent is 45-50.

⁵ Figure quoted is for the period 21st August 2014 to 31st March 2015.

The full year equivalent is 45-50.

The value of pension benefits accrued during the year is calculated as (the real increase in pension multiplied by 20) less (the contributions made by the individual). The real increase excludes increases due to inflation or any increase or decrease due to a transfer of pension rights.

The salary and pension entitlements of Simon Hodge, member of the National Committee for Scotland and Chief Executive of Forest Enterprise Scotland, is borne and disclosed in the Forest Enterprise Scotland Annual Report and Accounts 2014-15.

Salary

'Salary' includes basic salary; non-consolidated performance pay; overtime and any allowances subject to UK taxation. This report is based on payments made by Forestry Commission Scotland 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 HM Revenue and Customs as taxable income. Benefits in kind are given in the form of the private use of a car and house purchase loans.

Highest paid Director and median salary cost disclosure

Reporting bodies are required to disclose the relationship between the remuneration of the highest-paid director in their organisation and the median remuneration of the workforce.

	2014-15	2013-14
Highest earner's total remuneration (£000)	100-105	120-125
Median total remuneration (£000)	25-30	25-30
Ratio	3.5	4.1

The banded remuneration of the highest paid director in Forestry Commission Scotland in the financial year 2014-15 was £100,000 - £105,000 (2013-14 £120,000 - £125,000). This was 3.5 times the median remuneration of the workforce (2013-14 4.1 times), which was £25,000 - £30,000 (2013-14 £25,000 - £30,000).

In 2014-15, no (2013-14, nil) employees received remuneration in excess of the highest paid director. Remuneration ranged from £1,500 to £68,000 (2013-14 £2,000 to £67,000).

Total remuneration includes salary, non-consolidated performance-related pay, benefits-in-kind as well as severance payments. It does not include employer pension contributions and the cash equivalent transfer value of pensions. Remuneration paid to all staff in 2014-15 was £4,525,000 (2013-14; 4,682,000)

Pension benefits

	Accrued pension at pension age at 31 March 2015 and related lump sum £000	Real increase in pension and related lump sum at pension age £000	CETV at 31 March 2015 £000	CETV at 31 March 2014* £000	Real increase in CETV £000	Employer contribution to partnership pension account to nearest £100
Dr Bob McIntosh	55-60 plus LS of 170-175	0 - 2.5 plus LS of 2.5 - 5	1,282	1,263	21	-
Jo O'Hara	15-20 plus LS of 55-60	2.5 - 5 plus LS of 7.5 - 10	310	254	41	-
Nicola Whitaker	15-20 plus LS of 50-55	0 - 2.5 plus LS of 0 - 2.5	279	258	5	-
Ann Robertson	0-5 plus LS of 0-5	0 - 2.5 plus LS of 0 - 2.5	51	39	7	-
Brendan Callaghan	20-25 plus LS of 0-5	0 - 2.5 plus LS of 0 - 2.5	291	269	6	-
Niall Browne	0-5 plus LS of 0-5	0 - 2.5 plus LS of 0 - 2.5	16	14	1	-
Rosetta Forbes	0-5 plus LS of 0-6	1 - 2.5 plus LS of 0 - 2.5	0	0	0	3800

*The figure may be different from the closing figure in last year's accounts. This is due to the CETV factors being updated to comply with The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008.

Civil Service Pensions

Pension benefits are provided through the Civil Service pension arrangements. From 30 July 2007, civil servants may be in one of four defined benefit schemes; either a final salary scheme (**classic**, **premium** or **classic plus**); or a whole career scheme (**nuvos**). These statutory arrangements are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under **classic**, **premium**, **classic plus** and **nuvos** are increased annually in line with Pensions Increase legislation. Members joining from October 2002 may opt for either the appropriate defined benefit

arrangement or a 'money purchase' stakeholder pension with an 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, classic plus** and **nuvos**. Benefits in **classic** accrue at the rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years initial 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. **classic plus** is essentially a hybrid with benefits for service before 1 October 2002 calculated broadly as per **classic** and benefits for service from October 2002 worked out as in **premium**. In **nuvos** a member builds up a pension based on pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3% of their pensionable earnings in that scheme year and the accrued pension is uprated in line with Pensions Increase legislation. In all cases members may opt to give up (commute) pension for a lump sum up to the limits set by the Finance Act 2004.

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 from a panel of three providers. 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 pension age, or immediately on ceasing to be an active member of the scheme if they are already at or over pension age. Pension age is 60 for members of **classic, premium** and **classic plus** and 65 for members of **nuvos**.

Further details about the Civil Service pension arrangements can be found at the website <http://www.civilservice.gov.uk/my-civil-service/pensions/index.aspx>

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 figures include the value of any pension benefit in another scheme or arrangement which the member has transferred to the Civil Service pension arrangements. They also include any additional pension benefit accrued to the member as a result of their buying additional pension benefits at their own cost. CETVs are worked out within the guidelines and framework prescribed by the Institute and Faculty of Actuaries and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are taken.

Real increase in CETV

This reflects the increase in CETV that is 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 members of the National Committee for Scotland received the following remuneration for their services during the year ended 31 March 2015:

	2014-15 £000	2013-14 £000
Gordon Mann	6	6
Henry Graham	11	17

The remuneration of Henry Graham, non-executive and member of the National Committee for Scotland, also includes fees paid in relation to duties as non-executive member of the Forest Renewables Management Board.

The remuneration of Hamish Macleod and Amanda Bryan, non-executive Forestry Commissioners and members of the National Committee for Scotland, are borne and disclosed in the Forestry Commission England/Central Services Annual Report and Accounts 2014-15.

Simon Rennie, a non-executive member of the National Committee for Scotland, was a Director of the Central Scotland Forest Trust which became the Central Scotland Green Network Trust on 27 March 2014. He is now an employee of the Central Scotland Green



Network Trust. This body (Central Scotland Green Network Trust) received payments from Forestry Commission Scotland during his service on the National Committee and is disclosed in a related party transaction.

Jo O'Hara
Accountable Officer

July 2015

STATEMENT OF ACCOUNTABLE OFFICER'S RESPONSIBILITIES

Under the Forestry Act 1967, Forestry Commission Scotland is required 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 the department, the net resource outturn, resources applied to objectives, recognised gains and losses and cash flows for the financial year.

In preparing the accounts, the Accountable Officer is required to comply with the Government Financial Reporting Manual and in particular to:

- observe the Accounts Direction issued by Scottish Ministers, including 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.

Under section 15 of the Public Finance and Accountability (Scotland) Act 2000, the Principal Accountable Officer for the Scottish Administration has designated the Head of Forestry Commission Scotland as Accountable Officer of the Forestry Commission in respect of its activities in Scotland. She is personally answerable to the Scottish Parliament for the propriety and regularity of the Forestry Commission's activities in Scotland and for the economical, efficient and effective use of all associated resources. She is also responsible for signing the accounts of the Forestry Commission in respect of its activities in Scotland.

Jo O'Hara
Accountable Officer

July 2015

GOVERNANCE STATEMENT

1. Scope of Responsibility

As Accountable Officer, I have responsibility for ensuring that Forestry Commission Scotland's business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively, in accordance with the responsibilities assigned to me in the Scottish Public Finance Manual.

In discharging this overall responsibility, I am responsible for putting in place appropriate arrangements for the governance of its affairs, facilitating the effective exercise of its functions, which includes ensuring a sound system of control is maintained through the year and that arrangements are in place for the management of risk.

The Statement covers Forestry Commission Scotland and fully complies with the Corporate Governance Code. In addition, we publish a separate Governance Statement for our agency Forest Enterprise Scotland.

2. The Purpose of the Governance Framework

The governance framework comprises the systems and processes, and culture and values, by which Forestry Commission Scotland is directed, controlled and led. It enables Forestry Commission Scotland to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost effective services.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and 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 Scotland's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The governance framework has been in place at Forestry Commission Scotland for the year ended 31 March 2015 and up to the date of approval of the annual report and accounts, and accords with Scottish Public Finance Manual Guidance.

The Governance Framework

Forestry Commission Scotland operates as part of the Scottish Government, responsible for advising Forestry Ministers within Scottish Government on forestry policy and its implementation across Scotland. Forestry Commission Scotland also remains part of the Forestry Commission from which it purchases and receives a number of services.

The Forestry Commission has a Chair and Board of Commissioners. The legislative framework for forestry is principally the Forestry Acts 1967, 1979 and 1981, the Plant Health Act 1967 and the Countryside Act (Scotland) 1967. The Forestry Commissioners are statutorily responsible for the stewardship of the estate placed at their disposal by Ministers. The Forestry Commissioners have delegated certain duties and powers in connection with the management of the estate and the delivery of forestry policies to the National Committee for Scotland.

Although forestry is a devolved matter, the Secretary of State for Environment, Food and Rural Affairs has overall responsibility for UK forestry interests within the European Union and for international negotiations on forestry, including the formulation of UK policy on international forestry. The Secretary of State consults with Scottish Ministers on UK-wide issues.

Forestry Commission Scotland manages the public forest estate through its Agency, Forest Enterprise Scotland, to deliver public benefits. The Minister for Environment, Climate Change and Land Reform is answerable to the Scottish Parliament for the overall policies and performance of Forestry Commission Scotland.

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

- Richard Lochhead MSP Cabinet Secretary for Rural Affairs and the Environment
- Paul Wheelhouse MSP Minister for the Environment and Climate Change (to 21 November 2014)
- Aileen McLeod MSP Minister for Environment, Climate Change and Land Reform (from 21 November 2014)

Scottish Ministers decide the policy and financial framework within which Forestry Commission Scotland and its Agency, Forest Enterprise Scotland, operate in Scotland and they are accountable to the Scottish Parliament for all matters concerning both.

The Board of Commissioners responsibilities include

- changes to the role and governance structure of the Forestry Commission;
- maintaining an overview of corporate risk; and,
- oversight of the Central Services (Central Services comprise Human Resources; Finance and Accounting Services; Internal Audit; Information Systems; Inventory; Forecasting and Operational Support; Corporate and Forestry Support; Forest Research).

The Board of Commissioners consists of a Chair and up to 10 other members appointed by the Queen to be Forestry Commissioners. Sir Harry Studholme has served as Chair of the Commission since 10th February 2014.

Hamish Macleod, Commissioner Scotland and Amanda Bryan, Commissioner Scotland, along with Dr Bob McIntosh, Director Forestry Commission Scotland (with a dual role as the Scottish Government's Director, Environment and Forestry) continued to serve as Forestry Commissioners during 2014-15 with Dr Bob McIntosh retiring from the Forestry Commission on 1 March 2015. Jo O'Hara was appointed as Head of Forestry Commission Scotland from this date becoming a Commissioner. Hamish Macleod retired as non-executive Commissioner for Scotland on 31 March 2015.

Details of all Commissioners who served during the year and the governance framework of the Board of Commissioners are available in the Forestry Commission England/Central Services Annual Report and Accounts at www.forestry.gov.uk.

National Committee for Scotland

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 Scotland National Committee the normal exercise of their powers and duties in connection with the estate in Scotland. A non-executive Forestry Commissioner chairs the National Committee and during 2014-15 its members included the Director Forestry Commission Scotland (Director Environment and Forestry), the Deputy Director of Forestry Commission Scotland, the Forest Enterprise Scotland Chief Executive, the Head of Corporate Services and four non-executive members.

Following the retirement of the Director Forestry Commission Scotland, in February 2015, the National Committee comprise the Head of Forestry Commission Scotland (formally Deputy Director), the Agency Chief Executive, the Head of Corporate Services and four non-executive members up to 31 March 2015.

The Committee operates in accordance with the 'Principles of Corporate Governance' as set out in 'On Board: A Guide for Board Members of Public Bodies in Scotland' published by the Scottish Government.

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 National Committee for Scotland is responsible for:

- giving strategic direction to all the Forestry Commission's activities in Scotland on behalf of Scottish Ministers;
- approving drafts of corporate plans and annual reports;
- setting and monitoring the performance targets for the management of Scotland's forests;
- grant-aid and regulation of forestry activities;
- identifying the resources required to meet objectives and monitoring financial performance;
- ensuring the safeguarding of resources through internal control systems;
- drawing to the attention of the Board of Commissioners any issues of which they need to be aware for the proper discharge of their duties.

During the year the Committee discussed a wide range of issues including:

- future strategy;
- corporate plan, finance and tax;
- health and safety;
- tree health and biosecurity;
- Implementation of new SRDP;
- FES repositioning programme, acquisitions and disposals;
- Central Scotland Green Network;
- integrated land management;

- coal mining on National Forest estate; and
- windfarm restoration securities

At each meeting the National Committee also discussed the Director Forestry Commission Scotland's (Head of Forestry Commission Scotland from March 2015) report. Papers for these meetings and further information on the National Committee are available on our website, www.forestry.gov.uk.

Members of the National Committee who served during the year were and their attendance was:

Member	April 2014	June 2014	Aug 2014	Oct 2014	Dec 2014	Feb 2015	Mar 2015
Hamish Macleod, Chair and Forestry Commissioner	✓	✓	✓	X	✓	✓	✓
Dr Bob McIntosh Director, Forestry Commissioner, and Director Environment and Forestry (to 27 Feb 2015)	✓	✓	✓	✓	✓	✓	-
Amanda Bryan, Forestry Commissioner	✓	✓	✓	✓	✓	✓	✓
Henry Graham, Non-executive member	✓	✓	✓	✓	✓	✓	✓
Gordon Mann OBE, Non-executive member	✓	✓	✓	✓	✓	✓	✓
Simon Rennie MBE, Non-executive member	✓	✓	✓	✓	✓	✓	✓
Simon Hodge Chief Executive, Forest Enterprise Scotland	✓	✓	X	✓	✓	✓	X
Jo O'Hara, Deputy Director/Head of Forestry Commission Scotland	✓	✓	✓	✓	✓	✓	✓
Nicola Whitaker, Head of Corporate Services	✓	✓	X	✓	✓	✓	✓

Forestry Commission Scotland Management Board

The Management Board serves as a monitoring and decision-making forum, maintaining an overview of the business systems and administrative arrangements underpinning the functioning of Forestry Commission Scotland and its relationship with stakeholders. During the year the Board discussed a wide range of issues including:

- finance & tax;
- risk management;
- health and safety;
- business sustainability;
- renewables governance;
- tree health and biosecurity including ash dieback (Chalara);
- human resources;
- organisational development and change;
- FES/FCS Interfaces project;
- communications and marketing issues; and,
- repositioning programme within the National Forest Estate.

Further information on the Scotland Management Board is available on our website, www.forestry.gov.uk.

The Forestry Commission Scotland Management Board is supported by Forest Enterprise Scotland Management Board. Further details on their governance framework can be found in their annual report and accounts.

Audit and Risk Committee

The National Committee for Scotland has established an Audit and Risk Committee (ARC) to support it in its responsibilities for the effective management of risk, control and governance. Forestry Commission Scotland and Forest Enterprise Scotland maintain their own risk registers which are overseen by the ARC.

Through its work the ARC provides independent assurance to the National Committee on those key activities which support the achievement of its objectives through the review of the annual accounts and the findings from work carried out by Internal and External Audit. The ARC operates in accordance with the principles contained in the Scottish Government's Audit Committee Handbook.

The members of the ARC for Scotland were and their attendance was:

Member	July 2014	Oct 2014	Mar 2015
Simon Rennie MBE, Chair and non-exec member	✓	✓	✓
Henry Graham, Non-exec member	✓	✓	✓
Gordon Mann OBE, Non-exec member	✓	✓	✓

During the year the Committee discussed a wide range of issues including:

- annual report and accounts 2013-14;
- period 9 accounts 2014-15;
- external and internal audit strategy and reports;
- Information security and data handling;
- health and safety;
- review of risk registers;
- complaints investigations;
- national fraud initiative;
- procurement;
- tax compliance;
- renewables governance;
- restoration bonds.

Performance

All of the committees have linkages through shared membership. This ensures a breadth of knowledge and understanding of the organisation and forestry issues which enhances the contribution made by non-executives and thus the effectiveness of all the committees. Each board and committee receives relevant reports from the other committees and the non-executives play an active part in agreeing and selecting items for inclusion in agendas.

The range of topics covered by all boards and committees has been highlighted under the individual sections above.

Internal Audit carried out a review of the effectiveness of the Board of Commissioners and the National Committee and gave a substantial assurance opinion. The review included seeking the feedback from members on the structure and functioning of the Board and Committee and the responses received were positive. The unusually high turnover of National Committee members in 2015 was also observed. The Forestry Commission Scotland and Forest Enterprise Scotland Management Boards are to be reviewed in the coming year.

4. Risk Management

The Risk Management Policy of Forestry Commission Scotland is 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 the organisation;
- 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; and
- ensure that Business Continuity Plans are prepared and maintained up to date for the principal management units in Forestry Commission Scotland.

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

Plans to address weaknesses and major risks and to ensure continuous improvement of the business are in place. Requiring particular attention during 2015-16 will be:

- future delivery of forestry functions and further decentralisation of shared services;
- improved tax compliance and guidance
- introduction of the new SRDP scheme;
- detecting, monitoring and dealing with harmful pests and pathogens;
- reduction of forestry sector accidents and management of industry wide health and safety;
- how to increase the rate of woodland creation in Scotland.

5. Information Assurance

Forestry Commission Scotland's approach to information assurance is set by the Forestry Commission, as it manages shared systems and services. In comparison with other government departments, our information systems hold a relatively small number of records and the volume of sensitive information requiring a protective marking is relatively low.

The Forestry Commission's principal Senior Information Risk Owner (SIRO) chairs the Information Security Management Forum (ISMF). It co-ordinates and controls the implementation of information security across the Forestry Commission. It met on three occasions during the year. The work of the ISMF is supported on a day to day basis by the Departmental Security Officer (DSO) and the IT Security Officer (ITSO).

The Scotland SIRO, or nominated deputy, attends the ISMF and provides a direct link on information assurance matters between the ISMF and the Board. The ARC has also received updates on information assurance at each of its meetings.

A network of Information Asset Owners (IAOs) exists who have direct responsibility for the assets under their control, as detailed in their information asset registers. The information asset registers are subject to regular audit and review.

All Forestry Commission laptops are fully encrypted to prevent data theft in the event that a machine is lost or stolen. In addition appropriate staff have been issued with encrypted

data sticks for use when transferring sensitive data between offices or to external partners.

Training on information assurance is compulsory for all relevant staff and non-execs. Forestry Commission Scotland has taken a risk based approach to this and excluded those who spend more than 80% of their time on non-office based activities.

'Responsible for Information' training had been rolled out to staff in 2013/14. In 2014/15 this training was made available to non-execs.

The new protective marking scheme was introduced in April 2014 and related training rolled out to all relevant staff. No major issues have arisen as a result of this new policy.

We have a reporting system to capture all security incidents, which are investigated in accordance with Cabinet Office and Information Commissioner's guidance. There have been no reportable personal data related incidents during the year, as disclosed in the Management Commentary.

There was no lapse of data security reported during 2014-15 for Forestry Commission Scotland.

6. Review of Effectiveness

As Accountable Officer, I have responsibility for reviewing the effectiveness of the governance framework. My review is informed by:

- the executive managers within Forestry Commission Scotland who have responsibility for the development and maintenance of the governance framework;
- the work of the internal auditors, who submit to the ARC, reports which include the Head of Internal Audit's independent and objective opinion on the adequacy and effectiveness of the governance framework together with recommendations for improvement; and
- comments made by the external auditors in their management letters and other reports.

I receive an Annual Assurance Statement from the Forest Enterprise Agency Accountable Officer, and from Director Central Services for the Forestry Commission, providing me with assurance on the standard of governance and control within their area of

responsibility. I receive assurances from my management team through their regular submission of reports/presentations to the Management Board which is chaired by myself or my nominee and through my line management responsibilities.

Forestry Commission Scotland continues to be active in all areas of Best Value. Following a review of our current practices against the new guidance for Accountable Officers on Best Value in Public Services in March 2012, a work programme for best value topic reviews has been established. This provides a systematic approach to self evaluation and continuous improvement. In 2014-15 reviews, contributing to our best value approach and continuous improvement have been carried out on Procurement.

The National Fraud Initiative in Scotland (NFI) is a national detection exercise carried out by Audit Scotland which has identified fraud and error overpayments, savings and other outcomes worth almost £16 million across the Scottish public sector. Forestry Commission Scotland and Forest Enterprise Scotland were asked to participate in this exercise for the second time in October 2014.

The results have provided good assurance for the ARC and the management boards. Only 0.7% of the records reviewed were recommended for further investigation and all issues raised have been resolved.

The Head of Internal Audit has prepared an annual report and assurance statement to me as Head of Forestry Commission Scotland and Accountable Officer. The report includes an overall assessment of the adequacy and effectiveness of risk management, control and governance within Forestry Commission Scotland.

The overall opinion is that the governance framework within Forestry Commission Scotland continues to provide substantial assurance that material risks to the achievement of objectives are adequately managed. Plans to address any weaknesses identified and ensure continuous improvement of the control system are in place.

7. Significant Governance Issues

Tree Health

Tree health and biosecurity remains a significant governance and risk issue for FC Scotland. As a consequence of increased levels of inspection at ports, a number of new pathways for pests have been identified. These involve the use of non-compliant dunnage associated with imports of steel. Procedures have been put in place to minimise future threats from these sources.

The FC plant health service is working closely with colleagues in other departments and administrations to ensure a joined up approach to biosecurity through mechanisms such as the biosecurity risk register and the UK Plant Health Strategy.

Regulatory changes during the year

The Plant Health (Forestry) Order 2005 was last amended in 2014 only in respect to England and Scotland to bring in changes to Directive which included:

- The establishment of the UK as a protected zone for certain pests of sweet chestnut, plane and oak
- The addition of Bronze birch borer (*Agrilus anxius*) as a new pest
- New strengthened measures were introduced in respect of the Emerald ash borer (*Agrilus planipennis*) and the pinewood nematode (*Bursaphelenchus xylophilus*).

The Plant Health (Fees) (Forestry) Regulations 2006 have been amended twice in respect to England and Scotland:

- In 2014 to increase the fees to be charged relating to the documentary, identity and plant health checks of wood, wood products and isolated bark coming into England and Scotland from third countries.
- In 2015 to consolidate the legislation with the various amendments made and to remove the reduced frequency of checks which previously applied to wood of maple from Canada.

The Forest Reproductive Materials Regulation has been updated. The amendments implement EU decisions on the equivalence of forest reproductive material produced in countries outside the European Union to apply in England and Scotland.

Renewables

The renewables programme was successfully integrated into the core governance structure of Forestry Commission Scotland during 2014-15 with operational governance coming from Forest Enterprise Scotland Management Board and National Committee for Scotland providing strategic oversight.

Information Communication Technology (ICT) infrastructure

The ICT Infrastructure modernisation programme continues with further migration of key business applications to the new platform. This programme continues to make positive inroads into the business risk posed by ICT infrastructure failure. Disaster recovery facilities are now operational and have capacity to restore major corporate systems within 5 working days. Whilst some risk to the business still remains as work continues, the overall risk position has substantially improved. The FC target date to further develop facilities and achieve full Disaster Recovery is April 2017.

Work on the ICT infrastructure is on-going and more systems are being moved to the new architecture as part of that process, as opportunities to carry out the work arise. The FC's PSN re-accreditation has been submitted and we have been re-accredited for connection to the PSN for a further 12 months. This allows us to connect to and exchange information with other parts of the government network and also provides a framework for ensuing good practice in how our systems can be kept secure.

Business Continuity Management

The uncertainty generated by the expectation that central shared services will be devolved to countries has led to an increase in the loss of key staff which, together with difficulties encountered in recruiting talent, has increased the risk of disruption to business continuity. Additional controls and actions and retention policy have been introduced to mitigate the risk.

Information Risk Management

We continue to make steady progress to identify and address information risks. Our approach continues to take account of the fact that we do not handle as much sensitive information as most other departments and our information holdings are relatively small.

The Forestry Commission Information Security Management Forum has agreed that Privacy Impact Assessments will be required for all projects that involve the handling of personal information. Three levels of 'Responsible for Information' training are now online and has been undertaken by all staff where required at the appropriate level for their role.

Significant progress has been made in the designation of local Information Asset Owners, identifying and recording local information assets, including personal information and improving the procedures for reporting losses. This work is not yet complete but the ongoing work is helping develop a better understanding of the value of the information we hold and an improved information security culture across the organisation.

Structure of Forestry Commission Scotland

In 2014, The Forestry Commission decided to decentralise its managed shared services into the constituent parts of the organization; FC England, FC Scotland and Forest Research.

Forestry Commission Scotland has appointed a Change Manager to oversee the transition of these services into FC Scotland.

Procurement/Contract Management

Changes to procurement legislation have meant that Scotland and England now operate under different regulations. The current management and procurement in Scotland is therefore under review to determine the most appropriate structure and delivery of the function going forward. A project manager has been appointed for this and recommendations will be acted on in 2015-16.

Tax

Current HMRC tax audits have highlighted areas of non-compliance which, as well as leading to the retrospective payment of tax liabilities and potential penalties, will require substantive improvements to our policies, procedures and systems. A formal cross-FC working group has been set up to work at pace to ensure full compliance, as soon as practicable, for the future.

Internal Financial Controls

A programme of systems controls testing is carried out on an annual basis by Audit Scotland to review the key internal financial controls within Forestry Commission Scotland. The issues identified during 2014-15 exercise included some weaknesses in our processes for changing supplier bank details and 3 breaches in delegated authority limits on invoices paid. Management will address these issues during 2015-16 and Audit Scotland were able to take planned assurance on these systems for the audit of the financial statements.

8. Plans for 2015-16

We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements.



The former Accountable Officer, Director Forestry Commission Scotland retired in February 2015 and was not replaced. Responsibilities within that role have been divided between the Head of Forestry Commission Scotland (formerly Deputy Director) and the National Committee. The Forestry Commission Scotland Management Board will be the key governance body for FCS-wide matters. The FESMB will remain the key governance body for FES matters. Chief Executive Officer Forest Enterprise remains the Accountable Officer for the Agency.

A new post of Head of Policy will take forward work on delivery of the Government's policy priorities – including research and evidence, the Scottish Forestry Strategy and improved alignment with other policy priorities. The Head of Policy will be a full member of the Forestry Commission Scotland Management Board.

We will review and update the means by which Forestry Commission Scotland and Forest Enterprise Scotland interact, and will further develop our corporate planning processes and documentation.

Jo O'Hara
Accountable Officer
July 2015

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF FORESTRY COMMISSION SCOTLAND, THE AUDITOR GENERAL FOR SCOTLAND AND THE SCOTTISH PARLIAMENT

Independent auditor's report to the Forestry Commission Scotland, the Auditor General for Scotland and the Scottish Parliament

I have audited the financial statements of Forestry Commission Scotland for the year ended 31 March 2015 under the Public Finance and Accountability (Scotland) Act 2000. The financial statements comprise the Statement of Parliamentary Supply, the Statement of Comprehensive Net Expenditure, the Statement of Financial Position, the Statement of Cash Flows, the Statement of Changes in Taxpayers' Equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the 2014/15 Government Financial Reporting Manual (the 2014/15 FReM).

This report is made solely to the parties to whom it is addressed in accordance with the Public Finance and Accountability (Scotland) Act 2000 and for no other purpose. In accordance with paragraph 125 of the Code of Audit Practice approved by the Auditor General for Scotland, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Respective responsibilities of Accountable Officer and auditor

As explained more fully in the Statement of Accountable Officer's Responsibilities, the Accountable Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and is also responsible for ensuring the regularity of expenditure and income. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Auditor General for Scotland. Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors. I am also responsible for giving an opinion on the regularity of expenditure and income in accordance with the Public Finance and Accountability (Scotland) Act 2000.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free

from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the body's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Accountable Officer; and the overall presentation of the financial statements. It also involves obtaining evidence about the regularity of expenditure and income. In addition, I read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements, irregularities, or inconsistencies I consider the implications for my report.

Opinion on financial statements

In my opinion the financial statements:

- give a true and fair view in accordance with the Forestry Act 1967 and directions made thereunder by the Scottish Ministers of the state of the body's affairs as at 31 March 2015 and of its net operating cost for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2014/15 FReM; and
- have been prepared in accordance with the requirements of the Forestry Act 1967 and directions made thereunder by the Scottish Ministers.

Opinion on regularity

In my opinion in all material respects:

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

Opinion on other prescribed matters

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with the Forestry Act 1967 and directions made thereunder by the Scottish Ministers; and

- the information given in the Management Commentary and Finances section of Forestry Commission Scotland's Resource Accounts for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I am required to report by exception

I am required to report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records; or
- I have not received all the information and explanations I require for my audit; or
- the Governance Statement does not comply with guidance from the Scottish Ministers.

I have nothing to report in respect of these matters.

Brian Howarth ACMA CGMA
Assistant Director
Audit Scotland
8 Nelson Mandela Place
Glasgow
G2 1BT

July 2015

STATEMENT OF PARLIAMENTARY SUPPLY

Summary of Resource and Capital Outturn 2014-15

	Note	2014-15				2013-14	
		Budget total	Gross Expenditure	Income	Net Total Outturn	Outturn comparison to budget: Saving / (Excess)	Net Total Outturn
		£000	£000	£000	£000	£000	£000
Resource Departmental Expenditure Limit (RDEL)*	3	57,435	77,940	(23,402)	54,538	2,897	64,080
Resource Annually Managed Expenditure (AME)	3	600	244	-	244	356	-
Total Resource	3	58,035	78,184	(23,402)	54,782	3,253	64,080
Capital Department Expenditure Limit (CDEL)	3	1,600	1,600	-	1,600	-	4,755
Total Capital	3	1,600	1,600	-	1,600	-	4,755
Total	4	59,635	79,784	(23,402)	56,382	3,253	68,835

Net Cash Requirement 2014-15

	Note	2014-15					2013-14
		Estimate	Drawn down	Outturn	Cash carried forward for accrued expenditure	Net total compared with Estimate: saving / (excess)	Outturn
		£000	£000	£000	£000	£000	£000
Net cash requirement	4	59,035	58,935	53,003	4,012	10,044	71,824

The £59,035,000 estimate comprises the total funding voted from the Scottish Government and funding identified in the spring budget revision. Of this estimate, Forestry Commission Scotland drew down £58,935,000 during the year. The net outturn compared with funding drawn down was £10,044,000.

Forestry Commission Scotland now carry forward cash balances for income and expenditure accrued in the current financial year but not settled until the following financial year. The table above has therefore been updated in these accounts to reflect a cash carry forward of £4,012,000 from 2013-14.

The notes on pages 71 to 109 form part of these accounts

STATEMENT OF COMPREHENSIVE NET EXPENDITURE

for the 12 months ended 31 March 2015

		Staff Costs	Other Costs	2014-15 Income	2013-14
	Note	£000	£000	£000	£000
Administration Costs:					
Staff costs	5	5,719			5,829
Other administration costs	6		3,743		3,014
Operating income	8			(50)	(444)
Programme Costs:					
Programme costs	7		70,299		78,696
EU receipts	8			(22,285)	(17,278)
Other income	8			(1,067)	(987)
Totals		5,719	74,042	(23,402)	68,830
Net operating cost				56,359	68,830
<u>Other Comprehensive (Income)/Expenditure</u>					
	Note	2014-15 £000		2013-14 £000	
Net (gain)/loss on revaluation of property, plant and equipment	9	(1)		3	
Total other comprehensive (income)/Expenditure				(1)	3
Total comprehensive (income)/Expenditure				56,358	68,833

All income and expenditure are derived from continuing operations.

The notes on pages 71 to 109 form part of these accounts

STATEMENT OF FINANCIAL POSITION

as at 31 March 2015

		2014-15	2013-14	01-Apr-13
	Note	£000	£000	£000
Non current assets:				
Property, plant and equipment	9	196	192	217
Trade and other receivables	11	44	34	7
Total non current assets		240	226	224
Current assets:				
Inventories		21	22	24
Trade and other receivables	11	10,524	10,521	5,024
Cash and cash equivalents	12	10,039	4,309	7,558
Total current assets		20,584	14,852	12,606
Total assets		20,824	15,078	12,830
Current liabilities:				
Provisions	14	(44)	(33)	(52)
Trade and other payables	13	(23,085)	(17,409)	(15,031)
Total current liabilities		(23,129)	(17,442)	(15,083)
Total assets less current liabilities		(2,305)	(2,364)	(2,253)
Non current liabilities:				
Provisions	14	(94)	(95)	(123)
Trade and other payables	13	-	-	-
Total non-current liabilities		(94)	(95)	(123)
Assets less liabilities		(2,399)	(2,459)	(2,376)
Taxpayers' equity:				
General fund		(2,403)	(2,462)	(2,383)
Revaluation reserve		4	3	7
Total taxpayers' equity		(2,399)	(2,459)	(2,376)

The Accountable Officer authorised these financial statements for issue on July 2015.

J O'Hara

Accountable Officer

The notes on pages 71 to 109 form part of these accounts

STATEMENT OF CASH FLOWS

For the year ended 31 March 2015

		2014-15	2013-14
	Note	£000	£000
Cash flows from operating activities			
Net operating deficit		(56,359)	(68,830)
Adjustment for non-cash transactions	15	436	77
Non-cash inter-country transfers		1	(25)
(Increase)/decrease in inventories		1	2
(Increase)/decrease in trade and other receivables		(13)	(5,524)
Increase/(decrease) in trade and other payables		5,676	2,378
Less movements in creditors relating to items not passing through the SoCNE		(2,451)	160
Use of provisions	14	(271)	(56)
Net cash outflow from operating activities		(52,980)	(71,818)
Cash flows from investing activities			
Purchase of property, plant and equipment	9	(23)	(6)
Proceeds of disposal of property, plant and equipment		-	1
Net cash inflow from investing activities		(23)	(5)
Cash flows from financing activities			
From the Scottish Consolidated Fund		58,935	69,031
Net Financing		58,935	69,031
Net Increase / (decrease) in cash and cash equivalents in the period before adjustment for receipts and payments to the Consolidated Fund		5,933	(2,792)
Payment of amounts due to the Scottish Consolidated Fund		(202)	(457)
Net increase / (decrease) in cash and cash equivalents in the period after adjustment for		5,730	(3,249)
Cash and cash equivalents at the beginning of the period		4,309	7,558
Cash and cash equivalents at the end of the period	12	10,039	4,309

The notes on pages 71 to 109 form part of these accounts

STATEMENT OF CHANGES IN TAXPAYERS' EQUITY

for the year ended 31 March 2015

	Note	General Fund £000	Revaluation Reserve £000	Total £000
Balance at 31 March 2013		(2,383)	7	(2,376)
Changes in accounting standard		-	-	-
Restated balance at 1 April 2013		(2,383)	7	(2,376)
Changes in taxpayers' equity for 2013-14				
Comprehensive expenditure for the year		(68,830)	-	(68,830)
Net gain/(loss) on revaluation of property, plant and equipment	9	-	(3)	(3)
Realised revaluation surplus		1	(1)	-
Non-cash charges - auditor's remuneration	6	40	-	40
Non-cash charges - inter-country transfers	4	(25)	-	(25)
Total recognised income and expense for 2013-14		(68,814)	(4)	(68,818)
Net parliamentary funding		69,031	-	69,031
Amounts issued from the Scottish Consolidated Fund for supply but not spent at year end		(296)	-	(296)
At 31 March 2014		(2,462)	3	(2,459)

The notes on pages 71 to 109 form part of these accounts

Statement of Changes in Taxpayers' Equity (continued)

		General Fund	Revaluation Reserve	Total
		£000	£000	£000
Balance at 31 March 2014		(2,462)	3	(2,459)
Changes in accounting standard		-	-	-
Restated balance at 1 April 2014		(2,462)	3	(2,459)
Changes in taxpayers' equity for 2014-15				
Comprehensive expenditure for the year		(56,359)	-	(56,359)
Net gain/(loss) on revaluation of property, plant and equipment	9	-	1	1
Surplus creditor write off	15	94	-	94
Non-cash charges - auditor's remuneration	6	41	-	41
Non-cash charges - inter-country transfers	4	1	-	1
Total recognised income and expense for 2014-15		(56,223)	1	(56,222)
Net parliamentary funding	4	58,935	-	58,935
Amounts issued from the Scottish Consolidated Fund for supply but not spent at year end	4	(2,653)	-	(2,653)
At 31 Mar 2015		(2,403)	4	(2,399)

The notes on pages 71 to 109 form part of these accounts

NOTES TO THE ACCOUNTS

NOTE 1 STATEMENT OF ACCOUNTING POLICIES

These financial statements have been prepared on a going concern basis and in accordance with the 2014-15 Government Financial Reporting Manual (FReM) issued by HM Treasury. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context. Where the FReM permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of Forestry Commission Scotland for the purpose of giving a true and fair view has been selected. The particular policies selected by Forestry Commission Scotland are described below. They have been applied consistently in dealing with items considered material in relation to the accounts.

In addition to the primary statements prepared under IFRS, the FReM also requires Forestry Commission Scotland to prepare an additional primary statement. The Statement of Parliamentary Supply (or equivalent for Forestry Commission Scotland, which is funded by the Scottish Government) 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 and Capital Outturn" has been used for this primary statement.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 2.

1.1 Accounting convention

These accounts have been prepared under the historical cost convention modified to account for the revaluation of property, plant and equipment, inventories and available-for-sale financial assets, derivative financial assets and derivative financial liabilities at fair value through profit or loss.

1.2 Administrative and programme expenditure

The Statement of Comprehensive Net Expenditure is analysed between administration and programme income and expenditure. Administration costs reflect the costs of running Forestry Commission Scotland, together with associated operating income, and programme costs include costs relating to managing the National Forest Estate.

1.3 Employee benefits

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 dependant's benefits. Forestry Commission Scotland accounts for the PCSPS scheme as a defined contribution plan and recognises the expected cost of these elements on a systematic and rational basis over the period during which it benefits from employee's 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 Scotland recognises the contributions payable for the year. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

Performance pay

Except for staff in the Senior Staff Grade, payments to recognise staff performance are not made. Where appropriate a liability and expense is recognised for performance payments due under the Senior Staff Grade scheme. Details of the scheme are set out in the Remuneration Report.

Short-term employee benefits

A liability and an expense is recognised for holiday days, holiday pay and other short-term benefits when the employees render service that increases their entitlement to these benefits. As a result an accrual has been made for holidays earned but not yet taken.

1.4 Contingent liabilities

Forestry Commission Scotland discloses contingent liabilities in accordance with IAS 37. It also discloses for parliamentary reporting and accountability purposes certain statutory and non-statutory contingent liabilities where the likelihood of economic benefits is remote, but which have been reported to the Scottish Government in accordance with the requirements of HM Treasury's Managing Public Money.

Where the time value of money is material, contingent liabilities required to be disclosed under IAS 37 are stated at discounted amounts. Amounts reported to the Scottish Government are separately noted. Contingent liabilities that are not required to be disclosed by IAS 37 are stated at the amounts reported to the Scottish Government.

1.5 Property, plant and equipment

Legal ownership of all land is vested in the Scottish Government with legal ownership of the timber, including uncut trees, vested in the Forestry Commissioners. Legal ownership of other property, plant and equipment is vested in the Forestry Commissioners.

Property, plant and equipment is revalued annually as at 31 March.

Buildings

Buildings are shown at fair value less accumulated depreciation. The threshold for capitalisation of buildings is £10,000.

Professionally qualified staff employed by Forest Enterprise Scotland undertake a full revaluation of buildings at five yearly intervals coinciding with that for the Forest Estate and Other 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 Standards for determining fair value. Suitably qualified external valuers review the work of internal professional valuers. A full valuation took place on 1 April 2013 and Smiths Gore, Chartered Surveyors, reviewed this.

Buildings are restated annually between full revaluations using indices provided by Smiths Gore.

Subsequent expenditure

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to Forestry Commission Scotland and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the Statement of Comprehensive Net Expenditure during the financial period in which they are incurred.

Information technology

Information technology is shown at fair value less subsequent depreciation. 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 assets is £2,000.

Revaluation reserve

Increases in the carrying amount arising on revaluation of property, plant and equipment are credited to the revaluation reserve in taxpayers' equity. Decreases arising from fluctuations in market conditions are first charged directly to revaluation reserve to offset any previous increases for the same asset. Amounts in excess of previous increases are expensed to the Statement of Comprehensive Net Expenditure. Decreases arising from other factors are expensed directly to the Statement of Comprehensive Net Expenditure. Any revaluation surplus held on an asset within revaluation reserve is transferred directly to retained earnings upon disposal.

1.6 Depreciation

Assets under construction are not depreciated until the asset under construction is capable of operating in the manner intended by management.

Depreciation is provided on all other property, plant and equipment at rates calculated to write off the valuation, less estimated residual values, of each asset evenly over its expected useful life.

Asset lives are as follows:

Freehold buildings	over 1 to 60 years
Buildings held under a finance lease	lesser of unexpired term of lease and 60 years
Information technology	over 4 to 20 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within the Statement of Comprehensive Net Expenditure.

When revalued assets are sold, the amounts included in the revaluation reserve are transferred to the general fund.

1.7 Government grants receivable

Grants from the government are recognised at their fair value when there is reasonable assurance that the grant will be received and Forestry Commission Scotland will comply with all attached conditions.

Government grants in respect of capital expenditure are credited to the Statement of Comprehensive Net Expenditure, where UK and EU grants will be disclosed separately.

Grants received as a contribution towards an asset are also credited to the Statement of Comprehensive Net Expenditure and will not be treated as a deduction from the cost of acquiring the asset.

Assets funded by government grants are classified within property, Plant and Equipment. These assets depreciate by a fixed amount each month over the life of the asset where depreciation is treated as an expense in the same way as other assets.

1.8 Funding paid to Forest Enterprise Scotland

In carrying out its activities our Agency (Forest Enterprise Scotland) is expected to practice sustainable forest management in line with the UK Forestry Standard. We also charge the Agency with delivering additional social and environmental outputs. In order to deliver these additional outputs the Agency is given an annual funding grant based on agreed programmes. This arrangement has been included in a framework document and is accounted for through programme expenditure in the Statement of Comprehensive Net Expenditure.

1.9 Public corporation dividend

Forestry Commission Scotland shall receive a dividend from the Agency, reflecting the expected rate or return for the funding provided. This is included in programme income in the Statement of Comprehensive Net Expenditure. The Public Corporation Dividend has been set at 0%.

1.10 Inventories

Consumable materials and supplies are stated at the lower of current cost and net realisable value. Net realisable value is based on estimated selling prices, less further costs expected to be incurred to completion and disposal.

1.11 Revenue recognition

Income comprises the fair value of the consideration received or receivable from forestry and other activities. Revenue is shown net of value added tax, returns, rebates and discounts.

Forestry Commission Scotland recognises revenue when the amount of revenue can be reliably measured and it is probable that future economic benefits will flow to it.

1.12 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 finance statements for grant offers made but not yet approved for payment, although they are quantified in note 19.

1.13 European Union (EU) funding

The Scottish Government Rural Payments and Inspections Directorate (SGRPID) administers all grant payments and claims EU co-financing only for grants claimed for forestry options under Rural Development Contracts – Rural Priorities set up under the Scottish Rural Development Plan (2007-2013) and will continue to do so under the next plan. Forestry Commission Scotland claims EU funding for grants being paid under the now closed legacy grant schemes – the Woodland Grant Scheme and the Scottish Forestry Grants Scheme. This funding is claimed on a monthly basis from the European Agricultural Fund for Rural Development (EAFRD). If grants are recovered because of a failure by the applicant to fulfil the terms of the grant scheme contract the co-financing previously claimed is refunded to the EU.

1.14 Provisions

Forestry Commission Scotland provides for present legal and constructive obligations which are of uncertain timing or amount at the reporting 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. The increase in the provision due to passage of time is recognised in the Statement of Comprehensive Net Expenditure.

1.15 Value Added Tax (VAT)

The Forestry Commission is registered for VAT. In order to comply with the government accounting regulations and normal commercial practice, income and expenditure shown in

the Statement of Comprehensive Net Expenditure is net of VAT. Any VAT due to or from HM Revenue and Customs at the year end is included in the Forestry Commission Scotland accounts as a receivable or payable in the Statement of Financial Position. Irrecoverable VAT is charged to the Statement of Comprehensive Net Expenditure in the year in which it is incurred.

1.16 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker responsible for allocating resources and assessing performance of the operating segments has been identified as the Forestry Commission Scotland Management Board.

1.17 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the Forestry Commission Scotland operates ('the functional currency'). The functional currency and the presentational currency of the financial statements is pounds sterling.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of Comprehensive Net Expenditure.

1.18 Impairment of non-financial assets

Assets that are subject to depreciation and amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Where an asset is not held for the purpose of generating cash flows, value in use is assumed to equal the cost of replacing the service potential provided by the asset, unless there has been a reduction in service potential. For the purposes of assessing impairment, assets are grouped at the lowest

levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets that suffer impairment are reviewed for possible reversal of the impairment at each reporting date.

1.19 Financial assets

Classification

The Forestry Commission Scotland currently classifies its financial assets within loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the reporting date. These are classified as non-current assets. Loans and receivables comprise trade and other receivables and cash and cash equivalents in the Statement of Financial Position.

Recognition and measurement

Financial assets are recognised when Forestry Commission Scotland becomes party to the contractual provisions of the financial instrument.

Financial assets are derecognised when the rights to receive cash flows from the asset have expired or have been transferred and Forestry Commission Scotland has transferred substantially all risks and rewards of ownership.

Loans and receivables

Loans and receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of loans and receivables is established when there is objective evidence that Forestry Commission Scotland will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the loan and receivable is impaired. The amount of the provision is the difference between the asset's carrying

amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the Statement of Comprehensive Net Expenditure. When a loan or receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited in the Statement of Comprehensive Net Expenditure.

1.20 Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the Statement of Financial Position.

1.21 Financial liabilities

Classification

Forestry Commission Scotland currently only classifies its financial liabilities as other financial liabilities. The classification depends on the purpose for which the financial liabilities were issued. Management determines the classification of its financial liabilities at initial recognition.

Other financial liabilities

Other financial liabilities are included in current liabilities, except for maturities greater than 12 months after the reporting date. These are classified as non-current liabilities. Forestry Commission Scotland's other financial liabilities comprise trade and other payables in the Statement of Financial Position.

Recognition and measurement

Financial liabilities are recognised when the Forestry Commission Scotland becomes party to the contractual provisions of the financial instrument.

A financial liability is removed from the Statement of Financial Position when it is extinguished, that is when the obligation is discharged, cancelled or expired.

Other financial liabilities

Other financial liabilities are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

1.22 Effective in these Financial Statements

All International Financial Reporting Standards, Interpretations and Amendments effective at 31 March 2015 have been adopted in these statements, taking account of the specific interpretations and adaptations included within the FReM.

1.23 Effective for future Financial Years

The following IFRSs, IFRIC Interpretations and Amendments, applicable to Forestry Commission Scotland have been issued but are not yet effective and have not been adopted early.

IAS 1 Presentation of Financial Statements (Other Comprehensive Income);
IAS 16 Property, plant and equipment;
IAS 19 Post-Employment Benefits (Pensions);
IAS 24 Related Parties;
IAS 27 Separate Financial Statements;
IFRS 8 Operating Segments;
IFRS 9 Financial Instruments, Classification and Measurement;
IFRS 10 Consolidated Financial Statements;
IFRS 11 Joint arrangements;
IFRS 12 Disclosure of Interests in Other Entities; and
IFRS 13 Fair Value Measurement.

These standards have not been adopted by the Forestry Commission ahead of their implementation date. The future impact of IAS 1 and 19, IFRS 8, 10, 11 & 12 are not considered to be significant. The Forestry Commission is reviewing the likely impact of the adoption of IFRS 9, 13 and IAS 16, 24 and 27.

The Forestry Commission has also reviewed the changes in the FReM and determined that there was no significant impact on the accounts in 2014-15.

NOTE 2 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Critical accounting judgements and key sources of estimation uncertainty

In the application of Forestry Commission Scotland's accounting policies, judgements, estimates and assumptions need to be made about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying the accounting policies

The following are the critical judgements and estimates that have been made in the process of applying Forestry Commission Scotland's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

Buildings

Buildings primarily include specialist buildings held for operational activities and for which there are no active external markets. Management considers that Forest Enterprise Scotland's internal professionally qualified staff are best placed to value these buildings. To ensure compliance with RICS valuation standards, external professional valuers review the work of the internal valuers for consistency and appropriateness. Where appropriate, management ensures that external professional valuations of Buildings are obtained where active markets operate.

NOTE 3a ANALYSIS OF NET RESOURCE OUTTURN

	Outturn				2014-15	2013-14
	Budget total	Gross Expenditure	Income	Net Total	Net total outturn compared with budget: saving/(excess)	Net Total Outturn
	£000	£000	£000	£000	£000	£000
Forestry Commission Resource DEL:						
Programme budget	48,135	68,722	(23,352)	45,370	2,765	55,681
Administration budget	9,300	9,218	(50)	9,168	132	8,399
Total Resource DEL	57,435	77,940	(23,402)	54,538	2,897	64,080
Resource AME	600	244	-	244	356	-
Total resource outturn	58,035	78,184	(23,402)	54,782	3,253	64,080
Forestry Commission Capital DEL:						
Capital budget	1,600	1,600	-	1,600	-	4,755
Total capital outturn	1,600	1,600	0	1,600	-	4,755

NOTE 3b RECONCILIATION OF OUTTURN TO STATEMENT OF COMPREHENSIVE NET EXPENDITURE

Reconciliation of SOCNE to Resource & Capital Outturn	2014-15			2013-14		
	Outturn £000	Budget £000	Underspend £000	Outturn £000	Budget £000	Underspend £000
Statement of Comprehensive Net Expenditure						
Total comprehensive expenditure	56,358			68,833		
Net loss on revaluation of property, plant and equipment	1			(3)		
Net operating costs	56,359			68,830		
Adjustments for budget purposes						
New provisions raised (AME)	(244)			-		
Forest Enterprise Capital Grant	(1,577)			(4,750)		
Depreciation and Notional Audit fees	(62)			(66)		
Operating cash costs	54,476	57,335	(2,859)	64,014	64,281	(267)
Depreciation and Notional Audit fees	62			66		
Operating non cash costs	62	100	(38)	66	100	(34)
Resource DEL costs	54,538	57,435	(2,897)	64,080	64,381	(301)
Capital DEL costs						
Forest Enterprise Capital Grant	1,577			4,750		
Acquisition of tangible assets	23			5		
Capital DEL costs	1,600	1,600	0	4,755	4,750	5
DEL Budget	56,138	59,035	(2,897)	68,835	69,131	(296)
Provisions raised (HMRC & Early Departures)	244			-		
AME Budget	244	600	(356)	-	-	-

NOTE 4 RECONCILIATION OF NET RESOURCE OUTTURN TO NET CASH REQUIREMENT

			2014-15	2013-14
	Estimate	Outturn	Net outturn compared with estimate: saving/ (excess) estimate	Outturn
	£000	£000	£000	£000
Total operating resources DEL	57,435	54,538	2,897	64,080
Total operating resources AME	600	244	356	
Capital:				
Capital Grant paid to Forest Enterprise Scotland	1,600	1,577	23	4,750
Acquisition of property, plant and equipment		23	(23)	6
Proceeds of property, plant and equipment disposals		-	-	(1)
Less: gain/loss on disposal of property, plant and equipment	-	-	-	-
Total operating and capital resources	59,635	56,382	3,253	68,835
Accruals adjustments:				
Accruals balance retained and brought forward			4,012	-
Non-cash items	(700)	(436)	(264)	(75)
Changes in working capital other than cash	-	(3,213)	3,213	2,984
Changes in non-current payables	-	-	-	-
Use of provision	-	271	(271)	55
Non-cash inter country transfers	-	(1)	1	25
Net cash requirement	58,935	53,003	9,944	71,824

NOTE 5 STAFF NUMBERS AND RELATED COSTS

Staff costs comprise:

			2014-15	2013-14
	Total	Permanently employed staff	Others	Total
	£000	£000	£000	£000
Salaries	4,562	4,559	3	4,682
Social security costs	358	358	-	359
Other pension costs	849	849	-	840
Total costs	5,769	5,766	3	5,881
Less: recoveries for outward secondments	(50)	(50)	-	(52)
Total net costs	5,719	5,716	3	5,829

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme but Forestry Commission Scotland is unable to identify its share of the underlying assets and liabilities. This means that it is accounted for as a defined contribution scheme. The scheme actuary valued the scheme as at 31 March 2007. In order that the defined benefit obligations recognised in the financial statements do not differ materially from those that would be determined at the reporting date by a formal actuarial valuation, the FReM requires that "the period between formal actuarial valuations shall be four years, with approximate assessments in intervening years." Consequently, a formal actuarial valuation would have been due by 31 March 2011. However, formal actuarial valuations for unfunded public service pension schemes have been suspended by HM Treasury on value for money grounds while consideration is given to recent changes to public service pensions and while future scheme terms are developed as part of the reforms to public service pension provision. You can find details in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice.gov.uk/my-civil-service/pensions).

For 2014-15, employers' contributions of £805,000 were payable to the PCSPS (2013-14 £802,500) at one of four rates in the range 16.7% to 24.3% of pensionable pay, based on salary bands. The Scheme Actuary reviews employer contributions usually every four years following a full scheme valuation. The contribution rates are set to meet the cost of the benefits accruing during 2014-15 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 £12,600 were paid to one or more of the 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 £1,000, 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 or ill health retirement of these employees.

Contributions due to the **partnership** pension providers at 31 March 2015 were nil. Contributions prepaid at that date were nil.

No individuals retired early on ill health grounds; the total additional accrued pension liabilities in the year amounted to nil (2013-14: £nil).

Average number of persons employed

The average number of whole-time equivalent persons employed during the year was as follows:

			2014-15	2013-14
	Permanently employed staff Number	Others Number	Total Number	Total Number
Directly employed	131	7	138	137
Other		1	1	8
Total	131	8	139	145

Benefits in kind are provided under the following schemes:

- Advances of salary for house purchase (see note 12);
- Advances of salary for purchase of public transport and car park season tickets;
- Advances of salary for purchase of sports/health club membership;
- Advances of salary for purchase of IT and sports/health equipment, including bicycles; and
- Car provision for employees' scheme.
- Purchase of Childcare Voucher scheme.

Each scheme is subject to conditions and financial limits.



Compensation for loss of office

Exit package cost band	Number of compulsory redundancies		Number of other departures agreed		Total number of exit packages by cost band	
	2014-15	2013-14	2014-15	2013-14	2014-15	2013-14
<£10,000	-	-	1	-	1	-
£10,000 - £25,000	-	-	-	-	-	-
£25,000 - £50,000	-	-	-	-	-	-
£50,000 - £100,000	-	-	-	-	-	-
£100,000- £150,000	-	-	-	-	-	-
£150,000- £200,000	-	-	-	-	-	-
Total number of exit packages	-	-	1	-	1	-
Total resource cost / £	£0	£0	£5,183	£0	£5,183	£0

Redundancy and other departure costs have been paid in accordance with the provisions of the Civil Service Compensation Scheme, a statutory scheme made under the Superannuation Act 1972. Exit costs are accounted for in full in the year of departure. Where the department has agreed early retirements, the additional costs are met by the department and not by the Civil Service pension scheme. Ill-health retirement costs are met by the pension scheme and are not included in the table.

NOTE 6 OTHER ADMINISTRATION COSTS

Administration costs in year can be analysed as follows: -

		2014-15	2013-14
	Note	<u>£000</u>	<u>£000</u>
Shared central services		1,465	1,220
Other administration expenditure		<u>1,935</u>	<u>1,716</u>
		<u>3,400</u>	<u>2,937</u>
Non-cash costs			
Auditors remuneration & expenses - audit work	15	41	40
Depreciation of property, plant and equipment	9	21	26
Write-off of property, plant and equipment	9	-	2
Provisions -			
Provided in year	14	244	3
Written back	14	-	2
Unwinding of discount	14	<u>37</u>	<u>4</u>
		<u>343</u>	<u>77</u>
Total non-staff administration costs		<u>3,743</u>	<u>3,014</u>

Administration expenditure includes the cost of shared central service provided to Forestry Commission Scotland. 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. Seven areas of work are identified as shared services:

- Finance and accounting services;
- Information services;
- Human resources, including Learning and Development;
- Communications;
- Inventory Forecasting and Operational Support;
- Internal audit; and
- Business sustainability.

For each of the major shared services, a service board composed of 'intelligent buyers' from the countries and the service provider has 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.

NOTE 7 PROGRAMME COSTS

Programme costs in year can be analysed as follows: -

	2014-15	2013-14
	<u>£000</u>	<u>£000</u>
Support for forestry and the rural economy, including grants paid to private woodland owners	17,048	18,028
Grants paid to private woodland owners from EU receipts	22,285	17,278
Forestry development programmes	5,239	7,731
Timber Transport Fund	2,597	3,970
Grant paid to Forest Enterprise Scotland Resource	21,123	26,485
EU co financing payments	178	273
Other programme costs	252	182
Programme expenditure	<u>68,722</u>	<u>73,947</u>
Grant paid to Forest Enterprise Scotland Capital	1,577	4,750
Sub total	<u>70,299</u>	<u>78,697</u>
Programme expenditure	<u>70,299</u>	<u>78,697</u>

Forest Enterprise Scotland Funding

The role of Forest Enterprise Scotland is to manage the Scottish forest estate in accordance with the economic, environmental and social objectives set by the Scottish Ministers. Its main trading activity is to harvest and market timber on a commercial basis and the financial performance of Forest Enterprise Scotland is closely linked to the income it generates from timber sales. Forest Enterprise Scotland is also involved in recreation, conservation and heritage activities and the net expenditure on these activities is also financed by the Forestry Commission Scotland.



NOTE 8 INCOME

	2014-15	2013-14
	£000	£000
Operating income	50	444
Administrative income	50	444
Planting grant co-financing from EU	22,285	17,278
Gain on sale of estate land - non-cash	-	1
Other Income	1,067	986
Programme income	23,352	18,265
Total	23,402	18,709



NOTE 9 PROPERTY, PLANT AND EQUIPMENT

	<u>Buildings</u>	<u>IT (OME)</u>	<u>Total</u>
	£000	£000	£000
Valuation :			
At 1 April 2014	161	162	323
Additions	-	23	23
Revaluation to current prices	1	2	3
At 31 Mar 2015	162	187	349
Depreciation :			
At 1 April 2014	18	113	131
Provided during year	3	18	21
Revaluation to current prices	-	1	1
At 31 Mar 2015	21	132	153
Net Book value at 31 Mar 2015	141	55	196
At 1 April 2014	143	49	192
Asset financing:			
Owned	141	55	196
Finance leased	-	-	-
Net book value at 31 Mar 2015	141	55	196

	Buildings	IT (OME)	Total
	£000	£000	£000
Valuation :			
At 1 April 2013	160	246	406
Additions	-	6	6
Disposals	-	(76)	(76)
Write-offs / impairments	-	(2)	(2)
Revaluation to current prices	1	(12)	(11)
At 31 March 2014	161	162	323
Depreciation :			
At 1 April 2013	14	175	189
Provided during year	4	22	26
Disposals	-	(76)	(76)
Revaluation to current prices	-	(8)	(8)
At 31 March 2014	18	113	131
Net book value at 31 March 2014	143	49	192
At 1 April 2013	146	71	217
Asset financing:			
Owned	143	49	192
Finance leased	-	-	-
Net book value at 31 March 2014	143	49	192

As at 31 March 2015 buildings were valued at £141,000 by L H Tyson, FRICS who is Head of Estates. This was on the basis of Open Market Value, Existing Use Value, Depreciated Replacement Cost Value or discounted cash flows as appropriate under RICS guidance. The results of this valuation were also subject to a professional review by Smiths Gore Chartered Surveyors. The next full professional revaluation is due as at 1 April 2018. For 2014-15, valuations were updated using indices provided by Smiths Gore Chartered Surveyors.

Information technology (IT) was restated to a current value of £55,000 as at 31 March 2015 using an index provided by the Office for National Statistics.

Depreciation of £21,000 (2013-14: £26,000) is included in other administration costs in the Statement of Comprehensive Net Expenditure.

NOTE 10 Financial instruments

10(a) Financial Instruments by Category

	2014-15		2013-14	
	Loans and receivables	Total	Loans and receivables	Total
	£000	£000	£000	£000
Assets as per the Statement of Financial Position				
Trade and other receivables	10,527	10,527	10,485	10,485
Cash and cash equivalents	10,039	10,039	4,309	4,309
Total	20,566	20,566	14,794	14,794
	2014-15		2013-14	
	Other financial liabilities	Total	Other financial liabilities	Total
	£000	£000	£000	£000
Liabilities as per the Statement of Financial Position				
Trade and other payables excluding statutory liabilities	20,394	20,394	17,043	17,043
Total	20,394	20,394	17,043	17,043

All financial liabilities fall due within one year.

10(b) Exposure to risk

Forestry Commission Scotland's activities expose it to a variety of financial risks.

- Credit risk – the possibility that other parties might fail to pay amounts due;
- Liquidity risk – the possibility that the Forestry Commission Scotland might not have funds available to meet its commitments to make payments; and
- Market risk – the possibility that financial loss might arise as a result of changes in such measures as interest rates and stock market movements.

Due to the way in which government departments are financed, Forestry Commission Scotland is not exposed to the degree of financial risk faced by business entities.

Credit risk

Credit risks arise from cash and cash equivalents, deposits with banks and other institutions, as well as credit exposures to customers, including outstanding receivables and committed transactions.

Customers are assessed, taking into account their financial position, past experience and other factors, with individual credit limits being set in accordance with internal ratings and parameters set by Forestry Commission Scotland. The utilisation of credit limits is regularly monitored.

Refer to Note 11 for further analysis of credit risk.

Liquidity risk

Each financial year, the Scottish Government makes provision for the use of resources by Forestry Commission Scotland for revenue and capital purposes in a Budget Act for each financial year. Resources and accruing resources may be used only for the purposes specified and up to the amounts specified in the Budget Act. The Act also specifies an overall cash authorisation to operate for the financial year. Forestry Commission Scotland is not therefore exposed to significant liquidity risks.

Market risk

Forestry Commission Scotland has no powers to borrow or invest surplus funds. Financial assets and liabilities are generated by day-to-day operational activities and are not held to manage the risks facing Forestry Commission Scotland in undertaking its activities.

i) Cash flow and fair value interest rate risk

Forestry Commission Scotland has no significant interest bearing assets or liabilities and as such income and expenditure cash flows are substantially independent of market interest rates.

ii) Foreign Currency Risk

Forestry Commission Scotland does not generally undertake transactions in foreign currency, therefore its exposure to foreign currency risk is minimal.



10(c) Capital risk management

Forestry Commission Scotland's objectives when managing its capital structure are to maintain its ability to continue to provide benefits for stakeholders and to maintain an optimal capital structure to safeguard Taxpayers' Equity.

10(d) Fair Value Estimation

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair value.

NOTE 11 TRADE AND OTHER RECEIVABLES

11(a) Analysis by type

	2014-15	2013-14	01-Apr-13
	£000	£000	£000
Current			
Trade receivables	184	128	441
Less: provision for impairment of trade receivables	(10)	-	-
Trade receivables - net	<u>174</u>	<u>128</u>	<u>441</u>
VAT	(26)	27	2
House purchase loans to employees	3	3	3
EU funding accrued income	10,034	9,963	4,502
Prepayments and accrued income	41	70	76
Other receivables	298	330	-
	<u>10,524</u>	<u>10,521</u>	<u>5,024</u>
Non current			
House purchase loans to employees	44	34	7
	<u>44</u>	<u>34</u>	<u>7</u>
Total receivables	<u>10,568</u>	<u>10,555</u>	<u>5,031</u>

The carrying amounts of trade and other receivables are a reasonable approximation of fair value.

Forestry Commission Scotland had house purchase loans totalling £47,000 outstanding at 31 March 2015 relating to 4 employees (2013-14: £37,000 relating to 12 employees). Such loans are unsecured, interest free and typically repayable over 10 years, with an optional 2 year deferral period.

As of 31 March 2015, trade receivables of £19,000 (2013-14: £76,000) were fully performing and not past due or impaired and provided for.

As of 31 March 2015, trade receivables of £154,000 (2013-14: £52,000) were past due but not impaired. These relate to a number of customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	2014-15 £000	2013-14 £000
Less than one month	154	1
One to two months	-	-
More than two months	-	51
	154	52

As of 31 March 2015, trade receivables of £10,000 (2013-14: £nil) were impaired and also provided for. This relates to 1 debt analysed as follows:

	2014-15 £000	2013-14 £000
Advanced legal proceedings underway	10	-
Customer bankruptcy/liquidation	-	-
	10	-

The ageing of trade receivables provided for is as follows:

	2014-15 £000	2013-14 £000
Less than one month	-	-
One to two months	-	-
More than two months	10	-
	10	-

Movements in the provision for impairment of trade receivables are as follows:

	£000
At 1 April 2013	-
New provisions	-
Provisions utilised	-
At 1 April 2014	-
New Provisions	10
Provisions utilised	-
At 31 Mar 2015	10

The other classes within trade and other receivables do not contain impaired assets.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. Forestry Commission Scotland does not hold any collateral as security.

The carrying amounts of trade and other receivables are denominated in GBP Sterling

11(b) Intra-Government Balances

	2014-15	2013-14	Current	2014-15	2013-14	Non current
	01-Apr-13	2014-15	2013-14	01-Apr-13	2014-15	2013-14
	£000	£000	£000	£000	£000	£000
Balances with other central government bodies	169	65	434	-	-	-
Balances with local authorities	-	7	15	-	-	-
Balances with NHS trusts	-	-	18	-	-	-
Balances with public corporations and trading funds	4	-	-	-	-	-
Intra-government balances	173	72	467	-	-	-
Balances with bodies external to government	10,351	10,449	4,557	44	34	7
Total trade and other receivables	10,524	10,521	5,024	44	34	7

NOTE 12 CASH AND CASH EQUIVALENTS

	<u>2014-15</u>	<u>2013-14</u>	<u>01-Apr-13</u>
	£000	£000	£000
Balance at 1 April	4,309	7,558	3,378
Net change in cash balances	5,730	(3,249)	4,180
Balance at 31 March	10,039	4,309	7,558
Amounts issued from the Scottish Government for supply but not spent at year end	10,039	4,309	7,558

The balances above are all held within Government Banking Service.

NOTE 13 TRADE AND OTHER PAYABLES

13(a) Analysis by type

	<u>2014-15</u>	<u>2013-14</u>	<u>01-Apr-13</u>
	£000	£000	£000
Current			
Trade payables	1,276	1,279	1,060
Other payables	442	277	5
Other taxation and social security	11	14	18
Accruals and deferred income	18,703	15,543	13,491
Amounts issued from the Scottish Consolidated Fund (supply) but not spent at 31 March	2,653	296	457
Total	23,085	17,409	15,031

There were nil non-current payables at 31 March 2015.

The carrying amounts of trade and other liabilities are a reasonable approximation of their fair value.

The carrying amounts of trade and other payables are denominated in GBP Sterling



13(b) Intra-Government Balances

	Current			Non current		
	2014-15 £000	2013-14 £000	01-Apr-13 £000	2014-15 £000	2013-14 £000	01-Apr-12 £000
Balances with other central government bodies	2,653	736	1,542	-	-	-
Balances with local authorities	55	60	8	-	-	-
Balances with NHS trusts	-	-	-	-	-	-
Balances with public corporations and trading funds	-	-	-	-	-	-
Intra-government balances	2,708	796	1,550	-	-	-
Balances with bodies external to government	20,377	16,613	13,481	-	-	-
Total trade and other payables	23,085	17,409	15,031	-	-	-

NOTE 14 PROVISIONS FOR LIABILITIES AND CHARGES

	Early departure costs £000	Other £000	Total £000
At 1 April 2013	175	-	175
Provided in year	3	-	3
Provisions not required written back	2	-	2
Utilised in year	(57)	-	(57)
Unwinding of discount	5	-	5
At 1 April 2014	128	-	128
Provided in year	8	236	244
Provisions not required written back	-	-	-
Utilised in year	(41)	(230)	(271)
Unwinding of discount	37	-	37
At 31 Mar 2015	132	6	138

Analysis of expected timing of discounted cash flows relating to the balance at 31 March 2015: -

	Early departure costs £000	Other £000	Total £000
Within 1 year	38	6	44
Between 1 April 2016 and 31 March 2020	94	-	94
Between 1 April 2020 and 31 March 2024	-	-	-
Thereafter	-	-	-
	132	6	138

Forestry Commission Scotland 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 Scotland provides for this in full when the early retirement programme becomes binding on the agency by establishing a provision for the estimated payments.

Other provisions raised in 2014-15 relate to liabilities identified during the HMRC audit of Tax and VAT.



NOTE 15 NOTE TO THE CASHFLOW STATEMENT

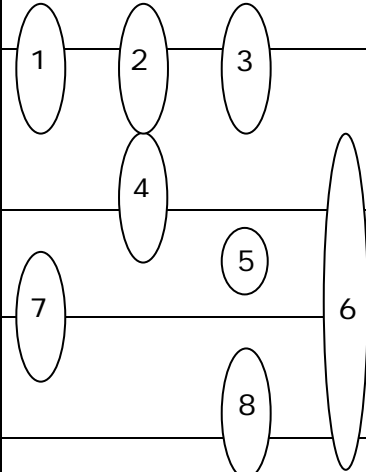
	2014-15	2013-14
	<u>£000</u>	<u>£000</u>
Depreciation	21	26
PPE impairment	-	2
Surplus creditor write off	94	-
Notional audit fees	41	40
Other	(1)	-
Provisions provided in year	244	5
Unwinding of discount	37	4
	<u>436</u>	<u>77</u>

NOTE 16 SEGMENT INFORMATION

To ensure our work is focused in key areas and to support the Scottish economy and to deliver tangible benefits to the people and places of Scotland we have defined eight work programmes. These work programmes are aligned to the Scottish Governments objectives for Scotland:

- Wealthier and Fairer
- Greener
- Smarter
- Healthier
- Safer and Stronger

The diagram below shows how all of these objectives, outcomes and programmes are interlaced.

Scottish Government Strategic Objectives	Scottish Forestry Strategy Outcomes	FCS Programmes	Relevant Indicators set by Scottish Government under "Scotland Performs"	
Wealthier and Fairer	Innovative and Competitive Businesses		Realise our full economic potential	
Greener	High quality, robust and adaptable environment			Value and enjoy our built natural heritage Reduce local/ global impact
Smarter	Improved health and wellbeing of people and their communities			Better educated Longer healthier lives
Healthier				Well designed sustainable places
Safer and Stronger				Strong resilient communities

1 Industry Development

2 Renewable Energy

3 Woodland Expansion

4 Natural and Cultural Heritage

5 Education and Skills

6 Urban Forestry

7 Access, Recreation, Tourism and Health

8 Community Engagement

Management has determined that Forestry Commission Scotland's three operating segments are the Scottish Forestry Strategy Outcomes, with results reviewed by the chief operating decision maker for Forestry Commission Scotland as a whole.

Expenditure in the schedule comprises the direct costs incurred by Forestry Commission Scotland's national office and indirect costs which have been allocated by individual cost centres or apportioned pro rata to the directly attributable costs. We have implemented a system to allocate project costs directly to objectives and this data has been used to support the costs attributable to each of the objectives for Forestry Commission Scotland.

	2014-15			
	Operating Segment 1	Operating Segment 2	Operating Segment 3	Total
	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
Gross expenditure	25,579	33,197	20,985	79,761
Income	(7,505)	(9,740)	(6,157)	(23,402)
Net income	<u>18,074</u>	<u>23,457</u>	<u>14,828</u>	<u>56,359</u>

	2013-14			
	Operating Segment 1	Operating Segment 2	Operating Segment 3	Total
	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
Gross expenditure	28,520	34,289	24,730	87,539
Income	(6,096)	(7,328)	(5,285)	(18,709)
Net income	<u>22,424</u>	<u>26,961</u>	<u>19,445</u>	<u>68,830</u>

Reconciliation to Statement of Comprehensive Net (Income)/Expenditure

	2014-15	2013-14
	<u>£000</u>	<u>£000</u>
SOCNE	56,359	68,830
SEGMENTS	56,359	68,830

Operating segment 1: Innovative and Competitive Businesses

Operating segment 2: High quality, robust and adaptable environment

Operating segment 3: Improved health and wellbeing of people and their communities

Capital employed by operating segment at 31 March 2015

Forestry Commission Scotland's capital is employed for both programme and administration purposes. Its distribution amongst objectives is not markedly different from the proportion of related gross expenditure. Capital employed has therefore been allocated to operating segments in proportion to gross expenditure.

	2014-15	2013-14
	<u>£000</u>	<u>£000</u>
<u>Operating segments</u>		
Competitive and innovative businesses contributing to the growth of the Scottish economy	(769)	(801)
High quality, robust and adaptable environment	(999)	(963)
Improved health and well-being of people and their communities	(631)	(695)
Total	<u>(2,399)</u>	<u>(2,459)</u>

Reconciliation to Statement of Financial Position

	<u>2014-15</u>	<u>2013-14</u>
	<u>£000</u>	<u>£000</u>
SFP	(2,399)	(2,459)
SEGMENTS	(2,399)	(2,459)

NOTE 17 CAPITAL COMMITMENTS

There were no contracted capital commitments at 31 March 2015 (2013-14: £nil).

NOTE 18 COMMITMENTS UNDER LEASES

Operating leases

Total future minimum lease payments under operating leases are given in the table below for each of the following periods.

	<u>2014-15</u>	<u>2013-14</u>
	£000	£000
Obligations under operating leases for the following periods comprise:		
Buildings		
Expiry within 1 year	179	142
Expiry after 1 year but not more than 5 years	535	567
Expiry thereafter	73	87
Total	<u>787</u>	<u>796</u>

NOTE 19 OTHER FINANCIAL COMMITMENTS

Woodland Creation and Restocking under legacy Grant Schemes

Following approval of a contract under Woodland Grant Scheme or Scottish Forestry Grants Scheme planting grants for Woodland Creation or Restocking were paid in instalments. At 31st March 2015, Forestry Commission Scotland was committed under the signed contracts for these grant schemes to the payment of future instalments of planting and replanting grants amounting to £381,000

Woodland Creation and Restocking under the Scottish Rural Development Plan 2007-2013

From 2007-2013, Woodland Creation and Restocking contracts were approved under this scheme. A planting grant was paid for woodland creation followed by four annual maintenance payments. Additional Farmland Premium was also paid where the trees had been planted on agricultural land. Where trees were felled and then restocked, applicants could claim a single instalment restocking grant. At 31st March 2015, Forestry Commission Scotland was committed under the signed contracts for Rural Priorities - Rural Development Contracts to the payment of future instalments of planting and replanting grants amounting to £64,793,717

Existing woodlands grants under legacy Grant Schemes

Grants for the management of existing woodlands under the Woodland Grant Scheme and Scottish Forestry Grant Scheme are paid annually in arrears during the five year currency of an approved plan. Commitments to future payments under these Schemes in respect of approved contracts amounted to £257,000

Existing woodlands grants under the Scottish Rural Development Plan 2007-2013

Grants for existing woodlands were also available under the Scottish Rural Development Plan (SRDP) – Rural Priorities – Rural Development Contracts. Grants for existing woodlands were paid under Woodland Improvement Grant and Sustainable Management of Forests. At 31st March 2015, Forestry Commission Scotland was committed under the signed contracts for Rural Priorities - Rural Development Contracts to the payment of future instalments of existing woodland grants amounting to £10,974,046

The above payments analysed by the period during which the commitment expires are as follows:



	<u>2014-15</u>	<u>2013-14</u>
	£000	£000
Not later than one year	27,242	41,913
Later than one year and not later than five years	31,709	45,619
Later than five years	17,454	21,021
	<u>76,405</u>	<u>108,553</u>

NOTE 20 CONTINGENT LIABILITIES DISCLOSED UNDER IAS 37

An HMRC audit of the Forestry Commission's treatment of VAT and Income Tax is underway. Provisions for HMRC liabilities have been raised during the year to address areas of non-compliance. These liabilities are included within note 14 and were subsequently settled by 31 March 2015.

The HMRC audit is continuing into 2015-16 and in accordance with IAS 37, an unquantifiable contingent liability is disclosed to recognise the possibility of future non-compliance liabilities arising from the audit.

NOTE 21 LOSSES AND SPECIAL PAYMENTS

	Number	2014-15 £000	Number	2013-14 £000
Losses total	8	263	6	25
Special payments total	3	20	5	2
	11	283	11	27

NOTE 22 RELATED PARTY TRANSACTIONS

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

In addition, Forestry Commission Scotland has had various material transactions with other government departments and other central government bodies. The main entities within government with which the Forestry Commission has had dealings are Scottish Government and its Agencies, UK Co-ordinating Body, the Paymaster General's Office, and HM Revenue and Customs.

During the year, Forest Enterprise Scotland entered into material transactions involving Hamish Macleod, a non-executive Forestry Commissioner and a member of the National Committee for Scotland, which are disclosed in Note 23 of the Forest Enterprise Scotland Annual Report and Accounts 2014-15.

The following transactions were carried out with related parties:

22(a) Other

	2014-15 £000	2013-14 £000
Funding and forestry grant payments	184	1,129
	184	1,129

Simon Rennie, a non-executive member of the National Committee for Scotland, is Chief Executive of the Central Scotland Green Network Trust. Central Scotland Green Network Trust received funding and forestry grant payments totalling £133,000 (£1,129,000, 2013-14). A further £83,000 (£14,000, 2013-14) was owing at 31 March 2015.

Hamish MacLeod is a director for Wood for Good which received donations of £51,000 from Forestry Commission for supporting industry education.

Forestry Commission holds a Register of Interests where Related Party transactions are lodged. This has been reviewed and is in line with the contents of this note.

22(b) Key management compensation

Refer to the Remuneration Report for further details of remuneration of the National Committee for Scotland and the Forestry Commission Scotland Management Board.

22(c) Loans to related parties

No loans have been made to related parties during 2014-15 (2013-14: nil).

NOTE 23 EVENTS AFTER 31 MARCH 2015

In accordance with the requirements of IAS 10, events after 31 March 2015 are considered up to the date on which the accounts are authorised for issue. These accounts were authorised for issue on July 2015.

NOTE 24 ENTITIES WITHIN THE DEPARTMENTAL BOUNDARY

The entities within the boundary during the year to 31 March 2014 were as follows:

- | | |
|------------------------------|------|
| a. Supply-financed agencies: | None |
| b. Non-executive NDPBs: | None |
| c. Other entities: | None |



FORESTRY COMMISSION SCOTLAND

DIRECTION BY THE SCOTTISH MINISTERS

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

1. The Forestry Commission shall prepare a statement of accounts for the financial year ended 31 March 2006 and subsequent years in relation to sums paid out of the Scottish Consolidated Fund. The statement shall comply with the accounting principles and disclosure requirements of the edition of the Government Financial Reporting Manual (FRM) which is in force for the year for which the statement is prepared.
2. The accounts shall be prepared so as to give a true and fair view of the income and expenditure, recognised gains and losses, and cash flows for the financial year, and of the state of affairs as at the end of the financial year.
3. This direction shall be reproduced as an appendix to the statement of accounts. The direction given on 28 November 2000 is hereby revoked.

Signed by the authority of the Scottish Ministers

Dated 17 January 2006



Forestry Commission Scotland
Coimisean na Coilltearachd Alba

Forest Enterprise Scotland

Annual Accounts
2014-15

FINANCES

BASIS OF ACCOUNTS

The Forestry Commission Scotland Resource Accounts are prepared in accordance with the Accounts Direction issued by Scottish Ministers under section 45(1) of the Forestry Act 1967.

DEPARTMENTAL ACCOUNTING BOUNDARY

Forest Enterprise Scotland is designated as a public corporation for national accounting purposes, by the Office of National Statistics, in accordance with European System of Accounts (ESA) 95. Accordingly, it is outside the departmental boundary for resource accounting purposes with the net funding reflected in the Forestry Commission Scotland resource accounts.

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. On 21 September 2012, Forest Holidays LLP restructured its business and created two new Limited Liability Partnerships (LLP's). The two new LLP's are the Camping in the Forest (CITF) LLP and Forest Holidays LLP. Under IAS32 and IAS39 the arrangements are regarded as investments and accounted for as a financial asset.

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 1.2.

Contingent Liabilities

Disclosures for contingent liabilities are contained in note 21.

Supplier Payment Policy

Forest Enterprise Scotland complies with the payment policy directed in the Government's Better Payment Practice Code and Scottish Government's Public Finance Manual. Unless

otherwise stated in the contract, we aim to pay within the Scottish Government's tighter target of 10 working days from the receipt of goods and services or the presentation of a valid invoice, whichever is the later. An analysis of bill payments for 2014-15 indicates that 93.2% were paid within the 10 day target set by the Government's Better Payment Practice Code.

Arrangements for handling complaints on payment performance are notified to suppliers within contracts.

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

Auditors

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

Disclosure of audit information to the auditors

So far as the Accountable Officer is aware, there is no relevant audit information of which Forest Enterprise Scotland's auditors are unaware. The Accountable Officer has taken all the steps that he ought to have taken to make himself aware of any relevant audit information and to establish that Forest Enterprise Scotland's auditors are aware of that information.

S. Hodge
Chief Executive and Agency Accountable Officer
1 Highlander Way
Inverness Business Park
Inverness. IV2 7GB

July 2015

REMUNERATION REPORT

Remuneration policy

The Chief Executive was appointed on a full-time permanent basis through a fair and open external recruitment exercise under the terms of the Civil Service Commission Recruitment Code. The Chief Executive's salary is determined by the Forestry Commission's Senior Pay Committee which comprises the Chairman, Director Central Services, Director Scotland, Director England, and three other Non-Executive Commissioners.

In reaching its decisions on individuals' salary and non-consolidated performance payment, 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 non-consolidated performance payments. Further information on the work of the SSRB can be found at www.ome.uk.com
- Reporting Officers make recommendations on the relative performance of each of their senior staff, whether a non-consolidated performance payment 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 non-consolidated performance payment to be awarded.

Remaining 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 non-consolidated performance payment, 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 Commission Recruitment Principles, which requires appointment to be made on merit on the basis of fair and open competition but also includes the circumstances when appointments may otherwise be made.

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.

AUDITED ELEMENT OF THE REMUNERATION REPORT

Salary and pension entitlements

The salary and pension entitlements of the Forest Enterprise Scotland Management Board were as follows:

	Salary		Bonus payments		Benefits in kind		Pension Benefits		Total	
	£000 2014-15	£000 2013-14	£000 2014-15	£000 2013-14	to nearest £100 2014-15	to nearest £100 2013-14	£000 2014-15	£000 2013-14	£000 2014-15	£000 2013-14
Simon Hodge	75-80	75-80	-	5-10	-	-	18	6	90-95	90-95
Les Bryson	75-80	65-70	5-10	-	2,500	2,200	15	4	100-105	75-80
Laurie Tyson	65-70	60-65	-	-	-	-	10	(24)	75-80	40-45
Alan Stevenson	65-70	65-70	-	-	-	-	9	(33)	70-75	30-35
Alan Duncan	50-55	50-55	-	-	-	-	6	(34)	55-60	15-20
Moira Baptie	15-20 ¹	30-35	-	-	900	800	14	(2)	30-35	30-35
Michael Hymers	10-15 ²	45-50	-	-	3,400	3,100	15	12	25-30	60-65
Michael Ansell	65-70	65-70	-	5-10	-	-	22	17	85-90	95-100
Jo Ellis	45-50	35-40	-	-	-	-	15	62	60-65	100-105
Zoe Stephens	30-35 ³	-	-	-	-	-	12	0	40-45	0
Donna Hutchinson	5-10 ⁴	-	-	-	-	-	3	0	5-10	0

¹ Figure quoted is for the period 1 April 2014 to 17 October 2014 on part time(0.5) hours. Full time equivalent is 60-65.

² Figure quoted is for the period 1 January 2015 to 31 March 2015. Full time equivalent is 50-55.

³ Figure quoted is for the period 1 April 2014 to 31 December 2014. Full time equivalent is 45-50.

⁴ Figure quoted is for the period 09 February 2014 to 31st March 2015. Full time equivalent is 50-55

The value of pension benefits accrued during the year is calculated as the real increase in pension multiplied by 20 less the contributions made by the individual. The real increase excludes increases due to inflation or any increase or decrease due to a transfer of pension rights.

The salary and pension costs for the HR Business Partner (Scotland) are borne and disclosed in the Forestry Commission Scotland Annual Report and Accounts 2014-15. The HR Business Partner (Scotland) is Rosetta Forbes.

Salary

'Salary' includes basic salary; non-consolidated performance payment; overtime and any allowances subject to UK taxation. This report is based on payments made by Forest Enterprise Scotland 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 HM Revenue and Customs as a taxable emolument. Benefits in kind are given in the form of the private use of a car and house purchase loans.

Transactions with committee and board members

An interest free loan in the form of an advance of salary for house purchase may be given to employees. The following members of the Management Board had such outstanding loans during the year:

	Balance at 1 April 2014	Balance at 31 December 2014	Maximum balance during the year
	£000	£000	£000
Michael Hymers	10	9	10
	10	9	10

Highest paid Director and median salary cost disclosure

Reporting bodies are required to disclose the relationship between the remuneration of the highest-paid director in their organisation and the median remuneration of the workforce.

	2014-15	2013-14
Highest earner's total remuneration (£000)	80-85	85-90
Median total remuneration (£)	25-30	25-30
Ratio	3.00	3.20

The banded remuneration of the highest paid director in Forest Enterprise Scotland in the financial year 2014-15 was £80,000 - £85,000 (2013-14 £85,000 - £90,000). This was

3.0 times the median remuneration of the workforce (2013-14 3.2 times), which was £25,000 - £30,000 (2013-14 £25,000 - £30,000).

In 2014-15, no (2013-14, nil) employees received remuneration in excess of the highest paid director. Remuneration ranged from £1,000 to £78,000 (2013-14 £1,000 to £79,000).

Total remuneration includes salary, non-consolidated performance-related pay, benefits-in-kind as well as severance payments. It does not include employer pension contributions and the cash equivalent transfer value of pensions. Remuneration paid to all staff in 2014-15 was £23,332,000 (2013-14; 22,989,000).

Pension Benefits

	Accrued pension at pension age at 31 March 2015 and related lump sum	Real increase in pension and related lump sum at pension age	CETV at 31 March 2015	CETV at 31 March 2014*	Real increase (decrease) in CETV	Employer contribution to partnership pension account to nearest £100
	£000	£000	£000	£000	£000	£100
Simon Hodge	25-30 plus LS of 85-90	0-2.5 plus LS of 2.5-5	558	510	10	-
Les Bryson	30-35 plus LS of 90-95	0-2.5 plus LS of 2.5-5	701	654	14	-
Laurie Tyson	20-25 plus LS of 70-75	0-2.5 plus LS of 0-2.5	559	520	10	-
Alan Stevenson	25-30 plus LS of 85-90	0-2.5 plus LS of 0-2.5	618	581	8	-
Alan Duncan ¹	25-30 plus LS of 85-90	0-2.5 plus LS of 0-2.5	661	624	6	-
Moira Baptie	20-25 plus LS of 60-65	0-2.5 plus LS of 0-2.5	358	336	10	-
Michael Hymers	10-15 plus LS of 0-5	0-2.5 plus LS of 0-2.5	130	115	7	-
Michael Ansell	10-15 plus LS of 0-5	0-2.5 plus LS of 0-2.5	184	153	19	-
Jo Ellis	5-10 plus LS of 25-30	0-2.5 plus LS of 0-2.5	119	104	8	-
Zoe Stephens	0-5 plus LS of 0-5	0-2.5 plus LS of 0-2.5	59	52	4	-
Donna Hutchinson	0-5 plus LS of 0-5	0-2.5 plus LS of 0-2.5	2	-	1	-

*The figure may be different from the closing figure in last year's accounts. This is due to the CETV factors being updated to comply with The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008.

Civil Service Pensions

Pension benefits are provided through the Civil Service pension arrangements. From 30 July 2007, civil servants may be in one of four defined benefit schemes; either a final salary scheme (classic, premium or classic plus); or a whole career scheme (nuvos). These statutory arrangements are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under classic, premium, classic plus and nuvos are increased annually in line with changes in the Retail Prices Index (RPI). Members joining from October 2002 may opt for either the appropriate defined benefit arrangement or a 'money purchase' stakeholder pension with an 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, classic plus and nuvos. Benefits in classic accrue at the rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years initial 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. Classic plus is essentially a hybrid with benefits for service before 1 October 2002 calculated broadly as per classic and benefits for service from October 2002 worked out as in premium. In nuvos a member builds up a pension based on pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3% of their pensionable earnings in that scheme year and the accrued pension is uprated in line with RPI. In all cases members may opt to give up (commute) pension for a lump sum up to the limits set by the Finance Act 2004.

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 from a panel of three providers. The employee does not have to contribute, but where they do, the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.8% of pensionable salary to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement).

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

they are already at or over pension age. Pension age is 60 for members of classic, premium and classic plus and 65 for members of nuvos.

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 figures include the value of any pension benefit in another scheme or arrangement which the member has transferred to the Civil Service pension arrangements. They also include any additional pension benefit accrued to the member as a result of their buying additional pension benefits at their own cost. CETVs are worked out within the guidelines and framework prescribed by the Institute and Faculty of Actuaries and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are taken.

Real increase in CETV

This reflects the increase in CETV that is 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.

S. Hodge
Chief Executive and Agency Accountable Officer

July 2015

STATEMENT OF ACCOUNTABLE OFFICER'S RESPONSIBILITIES

Under the Forestry Act 1967, Forestry Commission Scotland is required 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 the department, the net resource outturn, resources applied to objectives, recognised gains and losses and cash flows for the financial year.

In preparing the accounts, the Accountable Officer is required to comply with the Government Financial Reporting Manual and in particular to:

- observe the Accounts Direction issued by Scottish Ministers, including 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.

Under section 15 of the Public Finance and Accountability (Scotland) Act 2000, the Principal Accountable Officer for the Scottish Administration has designated the Chief Executive Forest Enterprise Scotland as Accountable Officer of Forest Enterprise in respect of its activities in Scotland. The Forest Enterprise Accountable Officer is personally answerable to the Scottish Parliament for the propriety and regularity of the Forest Enterprise activities in Scotland and for the economical, efficient and effective use of all associated resources. He is also responsible for signing the accounts of Forest Enterprise Scotland in respect of its activities in Scotland.

S. Hodge
Chief Executive and Agency Accountable Officer

July 2015

GOVERNANCE STATEMENT

1. Scope of Responsibility

As Accountable Officer, I have responsibility for ensuring that Forest Enterprise Scotland's business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively, in accordance with the responsibilities assigned to me in the Scottish Public Finance Manual.

In discharging this overall responsibility, I am responsible for putting in place appropriate arrangements for the governance of its affairs, facilitating the effective exercise of its functions, which includes ensuring a sound system of control is maintained through the year and that arrangements are in place for the management of risk.

2. The Purpose of the Governance Framework

The governance framework comprises the systems and processes, and culture and values, by which Forestry Enterprise Scotland is directed, controlled and led. It enables the Agency to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost effective services.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and 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 Agency's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The governance framework has been in place at Forest Enterprise Scotland for the year ended 31 March 2015 and up to the date of approval of the annual report and accounts, and accords with Scottish Public Finance Manual Guidance.

The Governance Framework

Forest Enterprise Scotland is an Executive Agency. The Agency is part of Forestry Commission Scotland and works to a Framework Document. The Agency's Framework Document sets out my responsibilities as Agency Accounting Officer. I am responsible for the management of the Agency. I am also responsible for the Agency's accounts and financial procedures and for the proper, effective and efficient use of resources provided

to the Agency within the terms of the Framework Document and in pursuit of the agreed objectives and targets.

Forest Enterprise Scotland Management Board

The board is a decision making and discussion forum which provides leadership and direction for the agency. It monitors performance against agreed policies, strategies and targets and provides advice and support to the Chief Executive and Director, Forestry Commission Scotland.

At each meeting, the board discussed Finance, Risk Management and Health and Safety. They also discussed a wide range of issues including:

- project management;
- restocking
- tree health and biosecurity;
- disposals and acquisitions within the National Forest Estate.
- human resources

Further information on the Management Board and board minutes are available on our website, www.forestry.gov.uk.

Performance

The Forest Enterprise Scotland Management Board has linkages through shared membership of other Forestry Commission Scotland governance committees. The Chief Executive is a member of the Forestry Commission Scotland Management Board and the National Committee for Scotland and attends the Audit & Risk Committee meetings. This ensures a breadth of knowledge and understanding of the organisation.

4. Risk Management

The Risk Management Policy of Forest Enterprise Scotland 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 Scotland;
- 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; and

- ensure that Business Continuity Plans are prepared and maintained up to date for the principal management units in Forest Enterprise Scotland.

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

Plans to address weaknesses and major risks and to ensure continuous improvement of the business are in place. Requiring particular attention during 2015-16 will be:

- future direction of Forest Enterprise Scotland and the devolution of shared services from the Forestry Commission;
- improved tax compliance and guidance;
- moving forward with large scale renewable energy projects;
- detecting, monitoring and dealing with harmful pests and pathogens;
- procurement change management following EU legislation changes and the Scottish Procurement Reform Bill as we work to devolve Procurement to Scotland.
- political sensitivities around the acquisition and disposal of land as part of the NFE repositioning programme, and objections to new planting schemes;
- restoration of former coal mining sites on the NFE; and,
- how to increase the rate of woodland creation in Scotland.

5. Information Assurance

Forest Enterprise Scotland's approach to information assurance is set by the Forestry Commission, as it manages shared systems and services. In comparison with other government departments, our information systems hold a relatively small number of records and the volume of sensitive information requiring a protective marking is relatively low.

The Forestry Commission's principal Senior Information Risk Owner (SIRO) chairs the Information Security Management Forum (ISMF). It co-ordinates and controls the implementation of information security across the Forestry Commission. It met on three occasions during the year. The work of the ISMF is supported on a day to day basis by the Departmental Security Officer (DSO) and the IT Security Officer (ITSO).

The Scotland SIRO, or nominated deputy, attends the ISMF and provides a direct link on information assurance matters between the ISMF and the Board. The ARC has also received updates on information assurance at each of its meetings.

A network of Information Asset Owners (IAOs) exists who have direct responsibility for the assets under their control, as detailed in their information asset registers. The information asset registers are subject to regular audit and review.

All Forest Enterprise Scotland laptops are fully encrypted to prevent data theft in the event that a machine is lost or stolen. In addition appropriate staff have been issued with encrypted data sticks for use when transferring sensitive data between offices or to external partners.

Training on information assurance is compulsory for all relevant staff and non-execs. Forest Enterprise Scotland has taken a risk based approach to this and excluded those who spend more than 80% of their time on non-office based activities.

'Responsible for Information' training had been rolled out to staff in 2013/14. In 2014/15 this training was made available to non-execs.

The new protective marking scheme was introduced in April 2014 and related training rolled out to all relevant staff. No major issues have arisen as a result of this new policy.

We have a reporting system to capture all security incidents, which are investigated in accordance with Cabinet Office and Information Commissioner's guidance. There have been no reportable personal data related incidents during the year, as disclosed in the Management Commentary.

There was one lapse of data security reported during 2014-15:

- the theft of a laptop and papers from a car (June 2014). All sensitive information was encrypted. None of the papers contained sensitive or personal data.

6. Review of Effectiveness

As Accountable Officer, I have responsibility for reviewing the effectiveness of the governance framework. My review is informed by:

- the executive managers within Forestry Enterprise Scotland who have responsibility for the development and maintenance of the governance framework;
- the work of the internal auditors, who submit to the ARC, reports which include the Head of Internal Audit's independent and objective opinion on the adequacy and effectiveness of the governance framework together with recommendations for improvement; and
- comments made by the external auditors in their management letters and other reports.

I receive assurances from my management team through their regular submission of reports/presentations to the management board which is chaired by myself and through my line management responsibilities.

Forest Enterprise Scotland continues to be active in all areas of Best Value. Following a review of our current practices against the new guidance for Accountable Officers on Best Value in Public Services in March 2012, a work programme for best value topic reviews has been established. This provides a systematic approach to self evaluation and continuous improvement. In 2014-15 reviews, contributing to our best value approach and continuous improvement have been carried out on Procurement, Corporate Planning, Vision and Strategic Direction, Performance Reporting and Workforce Planning.

The National Fraud Initiative in Scotland (NFI) is a national detection exercise carried out by Audit Scotland which has identified fraud and error overpayments, savings and other outcomes worth almost £16 million across the Scottish public sector. Forest Enterprise Scotland were asked to participate in this exercise for the second time in October 2014.

The Head of Internal Audit has prepared an annual report and assurance statement to me as Chief Executive and Agency Accountable Officer. The report includes an overall assessment of the adequacy and effectiveness of risk management, control and governance within Forestry Enterprise Scotland.

The overall opinion is that the governance framework within Forest Enterprise Scotland continues to provide substantial assurance that material risks to the achievement of objectives are adequately managed. Plans to address any weaknesses identified and ensure continuous improvement of the control system are in place.

7. Significant Governance Issues

Tree Health

Tree health and biosecurity remains a significant governance and risk issue for Forest Enterprise Scotland. As a consequence of increased levels of inspection at ports, a number of new pathways for pests have been identified. These involve the use of non-compliant dunnage associated with imports of steel. Procedures have been put in place to minimise future threats from these sources.

Forest Enterprise Scotland continues to work closely with the Forestry Commission plant health service to ensure a joined up approach to biosecurity through mechanisms such as the biosecurity risk register and the UK Plant Health Strategy.

Regulatory changes during the year

The Plant Health (Forestry) Order 2005 was last amended in 2014 only in respect to England and Scotland to bring in changes to Directive which included:

- The establishment of the UK as a protected zone for certain pests of sweet chestnut, plane and oak
- The addition of Bronze birch borer (*Agrilus anxius*) as a new pest
- New strengthened measures were introduced in respect of the Emerald ash borer (*Agrilus planipennis*) and the pinewood nematode (*Bursaphelenchus xylophilus*).

The Plant Health (Fees) (Forestry) Regulations 2006 have been amended twice in respect to England and Scotland:

- In 2014 to increase the fees to be charged relating to the documentary, identity and plant health checks of wood, wood products and isolated bark coming into England and Scotland from third countries.
- In 2015 to consolidate the legislation with the various amendments made and to remove the reduced frequency of checks which previously applied to wood of maple from Canada.

The Forest Reproductive Materials Regulation has been updated. The amendments implement EU decisions on the equivalence of forest reproductive material produced in countries outside the European Union to apply in England and Scotland.

Renewables

The renewables programme was successfully integrated into the core governance structure of Forestry Commission Scotland during 2014-15 with operational governance

coming from Forest Enterprise Scotland Management Board and National Committee for Scotland providing strategic oversight.

Information Communication Technology (ICT) infrastructure

The ICT Infrastructure modernisation programme continues with further migration of key business applications to the new platform. This programme continues to make positive inroads into the business risk posed by ICT infrastructure failure. Disaster recovery facilities are now operational and have capacity to restore major corporate systems within 5 working days. Whilst some risk to the business still remains as work continues, the overall risk position has substantially improved. The FC target date to further develop facilities and achieve full Disaster Recovery is April 2017.

Work on the ICT infrastructure is on-going and more systems are being moved to the new architecture as part of that process, as opportunities to carry out the work arise. The FC's PSN re-accreditation has been submitted and we have been re-accredited for connection to the PSN for a further 12 months. This allows us to connect to and exchange information with other parts of the government network and also provides a framework for ensuing good practice in how our systems can be kept secure.

Structure of Forestry Commission Scotland

In 2014, The Forestry Commission decided to decentralise its managed shared services into the constituent parts of the organization; FC England, FC Scotland and Forest Research.

Forestry Commission Scotland has appointed a Change Manager to oversee the transition of these services into FC Scotland and ultimately Forest Enterprise Scotland.

Business Continuity Management

The uncertainty generated by the expectation that central shared services will be devolved to countries has led to an increase in the loss of key staff which, together with difficulties encountered in recruiting talent, has increased the risk of disruption to business continuity. Additional controls and actions, including a review of our recruitment and retention policy, have been introduced to mitigate the risk.

Information Risk Management

We continue to make steady progress to identify and address information risks. Our approach continues to take account of the fact that we do not handle as much sensitive information as most other departments and our information holdings are relatively small.

The Forestry Commission Information Security Management Forum has agreed that Privacy Impact Assessments will be required for all projects that involve the handling of personal information. Three levels of 'Responsible for Information' training are now online and has been undertaken by all staff where required at the appropriate level for their role.

Significant progress has been made in the designation of local Information Asset Owners, identifying and recording local information assets, including personal information and improving the procedures for reporting losses. This work is not yet complete but the ongoing work is helping develop a better understanding of the value of the information we hold and an improved information security culture across the organisation.

Procurement/Contract Management

Changes to procurement legislation have meant that Scotland and England now operate under different regulations. The current management and procurement in Scotland is therefore under review to determine the most appropriate structure and delivery of the function going forward. A project manager has been appointed for this and recommendations will be acted on in 2015-16.

Tax

Current HMRC tax audits have highlighted areas of non-compliance which, as well as leading to the retrospective payment of tax liabilities and potential penalties, will require substantive improvements to our policies, procedures and systems. A formal cross-FC working group has been set up to work at pace to ensure full compliance, as soon as practicable, for the future.

8. Plans for 2015-16

We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements.

We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

S Hodge
Chief Executive and Agency Accountable Officer

July 2015

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF FOREST ENTERPRISE SCOTLAND, THE AUDITOR GENERAL FOR SCOTLAND AND THE SCOTTISH PARLIAMENT

Independent auditor's report to Forest Enterprise Scotland, the Auditor General for Scotland and the Scottish Parliament

I have audited the financial statements of Forest Enterprise Scotland for the year ended 31 March 2015 under the Forestry Act 1967. The financial statements comprise the Statement of Comprehensive Net Income, the Statement of Financial Position, the Statement of Cash Flows, the Statement of Changes in Taxpayers' Equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the 2014/15 Government Financial Reporting Manual (the 2014/15 FReM).

This report is made solely to the parties to whom it is addressed in accordance with the Public Finance and Accountability (Scotland) Act 2000 and for no other purpose. In accordance with paragraph 125 of the Code of Audit Practice approved by the Auditor General for Scotland, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Respective responsibilities of Accountable Officer and auditor

As explained more fully in the Statement of Accountable Officer's Responsibilities, the Accountable Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and is also responsible for ensuring the regularity of expenditure and income. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Auditor General for Scotland. Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors. I am also responsible for giving an opinion on the regularity of expenditure and income in accordance with the Public Finance and Accountability (Scotland) Act 2000.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an



assessment of: whether the accounting policies are appropriate to the body's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Accountable Officer; and the overall presentation of the financial statements. It also involves obtaining evidence about the regularity of expenditure and income. In addition, I read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements, irregularities, or inconsistencies I consider the implications for my report.

Opinion on financial statements

In my opinion the financial statements:

- give a true and fair view in accordance with the Forestry Act 1967 and directions made thereunder by the Scottish Ministers of the state of the body's affairs as at 31 March 2015 and of its net surplus for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2014/15 FReM; and
- have been prepared in accordance with the requirements of the Forestry Act 1967 and directions made thereunder by the Scottish Ministers.

Opinion on regularity

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

Opinion on other prescribed matters

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with the Forestry Act 1967 and directions made thereunder by the Scottish Ministers; and
- the information given in the Management Commentary and Finances section of Forest Enterprise Scotland's Annual Accounts for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I am required to report by exception

I am required to report to you if, in my opinion:



- adequate accounting records have not been kept; or
- the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records; or
- I have not received all the information and explanations I require for my audit; or
- the Governance Statement does not comply with guidance from the Scottish Ministers.

I have nothing to report in respect of these matters.

Brian Howarth ACMA CGMA
Assistant Director
Audit Scotland
8 Nelson Mandela Place
Glasgow
G2 1BT

July 2015

STATEMENT OF COMPREHENSIVE NET INCOME

for the period ended 31 March 2015

	2014-15	2013-14
Note	£000	£000
Operating Income		
Sales of timber	(65,785)	(65,184)
Forest protection and maintenance	(2,379)	(2,053)
Management & development of estate	(11,304)	(10,638)
	(79,468)	(77,875)
Operating Expenditure		
Forest planning	5,789	5,915
Timber operations	26,788	24,196
Forest protection and maintenance	35,818	30,039
Management & development of estate	4,938	11,925
Value of felled timber	9 36,057	35,691
	109,390	107,766
	29,922	29,891
Net sustainable forest management		
Communities, recreation and tourism		
Income	(4,132)	(5,476)
Expenditure	19,655	17,559
	15,523	12,083
Environment and heritage		
Income	(1,879)	(71)
Expenditure	8,720	6,765
	6,841	6,694
Estate improvements		
Income	(1)	(45)
Expenditure	10,458	12,317
	10,457	12,272
Management services		
Income	(305)	(120)
Expenditure	382	448
	77	328

(Surplus)/deficit before (Gain)/Loss on revaluation of biological assets		62,820	61,268
Loss on revaluation of biological assets transferred to NCAHFS	10	14	1,918
(Gain)/Loss on revaluation of biological assets	9	<u>(184,088)</u>	<u>(41,079)</u>
(Surplus)/deficit after (Gain)/Loss on revaluation of biological assets		<u>(121,254)</u>	<u>22,107</u>
Government grant		(22,700)	(31,235)
(Gain)/Loss on sale of properties	6	402	(1,987)
(Net Surplus)/deficit for the year		<u>(143,552)</u>	<u>(11,115)</u>
Transferred to general fund		<u>(143,552)</u>	<u>(11,115)</u>

All income and expenditure is derived from continuing operations.

Other Comprehensive (Income)/Expenditure

	2014-15	2013-14
	<u>£000</u>	<u>£000</u>
Net (gain)/loss on revaluation of property plant and equipment	(12,470)	(25,274)
Net loss on revaluation of financial asset	-	-
Total other comprehensive (income)/expenditure	<u>(12,470)</u>	<u>(25,274)</u>
Total comprehensive (income)/expenditure	<u>(156,022)</u>	<u>(36,389)</u>

The notes on pages 139 to 189 form part of these accounts.

STATEMENT OF FINANCIAL POSITION

as at 31 March 2015

		2014-15	2013-14 RESTATED	01-Apr-13 RESTATED
Note	£000	£000	£000	£000
Non current assets				
Property, plant and equipment	7	1,208,684	1,193,434	1,172,692
Biological assets	9	1,009,567	862,459	863,600
Financial assets	8	1,425	1,450	1,450
Trade and other receivables	13	1,034	1,024	1,072
Total non current assets		2,220,710	2,058,367	2,038,814
Current assets				
Non-current assets held for sale	10	805	1,837	3,243
Inventories	12	6,405	4,891	3,643
Trade and other receivables	13	19,479	19,162	14,819
Cash and cash equivalents	14	7,499	15,507	2,187
Total current assets		34,188	41,397	23,892
Total assets		2,254,898	2,099,764	2,062,706
Current liabilities				
Provisions	16	(470)	(207)	(330)
Trade and other payables	15	(14,763)	(15,750)	(14,465)
Total current liabilities		(15,233)	(15,957)	(14,795)
Total assets less current liabilities		2,239,665	2,083,807	2,047,911
Non current liabilities				
Provisions	16	(253)	(373)	(511)
Trade and other payables	15	(1,978)	(2,037)	(539)
Total non current liabilities		(2,231)	(2,410)	(1,050)
Assets less liabilities		2,237,434	2,081,397	2,046,861
Taxpayers' equity				
General fund		1,316,474	1,167,886	1,150,098
Revaluation reserve		920,960	913,511	896,763
Total taxpayers' equity		2,237,434	2,081,397	2,046,861

The notes on pages 139 to 189 form part of these accounts

The Accountable Officer authorised these financial statements for issue on July 2015.

S. Hodge

Chief Executive and Agency Accountable Officer

STATEMENT OF CASH FLOWS

for the period ended 31 March 2015

		2014-15	2013-14
	Note	£000	£000
Cash flows from operating activities			
Net surplus (deficit) for the year		143,552	11,115
Adjustments for non cash transactions:			
Depreciation charges	7	3,879	3,781
Non-cash inter-country transfers		-	36
(Profit)/loss on disposal of buildings, forest estate and land		(1,237)	(3,023)
(Profit)/loss on disposal of other PPE		24	56
(Gain)/loss on revaluation of biological assets	9,10	(184,074)	(39,161)
Book value of felled timber	9	36,057	35,691
Revaluation Gain/Impairment of PPE		1,996	4,457
Revaluation reserve written off		68	8
Movement in provisions	16	281	(10)
(Increase)/decrease in inventories		(1,514)	(1,248)
(Increase)/decrease in trade and other receivables		(327)	(4,295)
Increase/(decrease) in trade and other payables		(1,186)	2,688
Use of provisions	16	(138)	(251)
Decrease/(increase) in plant & seed (biological assets)	9	(544)	139
Net cash outflow from operating activities		(3,163)	9,983
Cash flows from investing activities			
Purchase of property, plant and equipment		(11,736)	(12,414)
Proceeds of disposal of properties	6	5,964	15,065
Proceeds of disposal of other property, plant and equipment	6	209	686
Disposal of biological assets	9	718	-
Net cash outflow from investing activities		(4,845)	3,337



Net increase / (decrease) in cash and cash equivalents in the period		<u>(8,008)</u>	<u>13,320</u>
Cash and cash equivalents at the beginning of the period		<u>15,507</u>	<u>2,187</u>
Cash and cash equivalents at the end of the period	14	<u>7,499</u>	<u>15,507</u>

The notes on pages 139 to 189 form part of these accounts.

STATEMENT OF CHANGES IN TAXPAYERS' EQUITY

for the period ended 31 March 2015

	General Fund RESTATED	Revaluation Reserve RESTATED	Total RESTATED
	£000	£000	£000
Balance at 31 March 2013	1,150,098	896,763	2,046,861
Change in accounting standard	-	-	-
Restated balance at 1 April 2013	1,150,098	896,763	2,046,861
Changes in taxpayers' equity for 2013-14			
Net gain/(loss) on revaluation of property, plant and equipment	-	25,274	25,274
Net gain/(loss) on revaluation of NCAHFS	-	(1,897)	(1,897)
Non-cash charges - intercountry transfers	36	-	36
General fund write off	-	-	-
Realised element of reserves	6,637	(6,637)	-
Release of reserves to the SoCNI	-	8	8
Net surplus for the year	11,115	-	11,115
Total recognised income and expense for 2013-14	17,788	16,748	34,536
At 31 March 2014	1,167,886	913,511	2,081,397

Statement of Changes in Taxpayers' Equity (continued)

	General Fund RESTATED £000	Revaluation Reserve RESTATED £000	Total RESTATED £000
Balance at 31 March 2014	1,167,886	913,511	2,081,397
Change in accounting standard	-	-	-
Restated balance at 1 April 2014	1,167,886	913,511	2,081,397
Changes in taxpayers' equity for 2014-15			
Net gain/(loss) on revaluation of property, plant and equipment	-	12,470	12,470
Net gain/(loss) on revaluation of NCAHFS	-	(53)	(53)
Realised element of reserves	5,036	(5,036)	-
Release of reserves to the SoCNI	-	68	68
Net surplus for the year	143,552	-	143,552
Total recognised income and expense for 2014-15	148,588	7,449	156,037
At 31 March 2015	1,316,474	920,960	2,237,434

The notes on pages 139 to 189 form part of these accounts.

NOTES TO THE ACCOUNTS

NOTE 1 ACCOUNTING POLICIES

1. Statement of accounting policies

These financial statements have been prepared on a going concern basis and in accordance with the 2014-15 Government Financial Reporting Manual (FReM) issued by HM Treasury. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context. Where the FReM permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of Forest Enterprise Scotland for the purpose of giving a true and fair view has been selected. The particular policies selected by Forest Enterprise Scotland are described below. They have been applied consistently in dealing with items considered material in relation to the accounts.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 2.

1.1 Accounting convention

These accounts have been prepared under the historical cost convention modified to account for the revaluation of property, plant and equipment, inventories and available-for-sale financial assets, and derivative financial assets and derivative financial liabilities at fair value through profit or loss.

1.2 Employee benefits

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 dependant's benefits. Forest Enterprise Scotland accounts for the PCSPS scheme as a defined contribution plan and recognises the expected cost of these elements on a systematic and rational basis over the period during which it benefits from employee's 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, Forest Enterprise Scotland

recognises the contributions payable for the year. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

Performance pay

Except for staff in the Senior Staff Grade, payments to recognise staff performance are not made. Where appropriate, a liability and expense is recognised for performance payments due under the Senior Staff Grade scheme. Details of the scheme are set out in the Remuneration Report.

Short-term employee benefits

A liability and an expense is recognised for holiday days, holiday pay and other short-term benefits when the employees render service that increases their entitlement to these benefits. As a result an accrual has been made for holidays earned but not yet taken.

1.3 Contingent liabilities

Forest Enterprise Scotland discloses contingent liabilities in accordance with IAS 37. It also discloses, for parliamentary reporting and accountability purposes, certain statutory and non-statutory contingent liabilities where the likelihood of economic benefits is remote, but which have been reported to Parliament in accordance with the requirements of HM Treasury's Managing Public Money.

Where the time value of money is material, contingent liabilities required to be disclosed under IAS 37 are stated at discounted amounts. Amounts reported to Parliament are separately noted at the amounts reported to Parliament.

1.4 Property, plant and equipment

Legal ownership of all buildings is vested in Scottish Ministers or the Forestry Commissioners. Ownership of other property, plant and equipment is vested in the Forestry Commissioners. Where Forest Enterprise Scotland is the principal beneficial user of assets owned by Scottish Ministers or the Forestry Commissioners these are treated as Property, Plant and Equipment assets of the Agency. See also 'Land and Buildings Leased to Customers' at 1.6 below and 'Leases' at 1.12 below.

Property, plant and equipment is revalued professionally every 5 years as at 31 March with indexation carried out in intervening years.

Forest Estate

Forested areas comprise land (including land improvements) and timber stocks. Elements of timber stock fall within the definition of Biological Assets as set out in IAS 41 (Agriculture) and details of the accounting policy are set out below. One requirement of IAS 41 is to separately account and value both land and the biological asset growing on it. As a result, the Forest Estate consists of all woodland areas and timber falling outwith the definition of a biological asset. Elements of the valuation and therefore the accounting for these assets rely on estimation techniques and these are detailed under Note 2.

Forest estate land and trees not apportioned to Biological Assets are shown at fair value. External professional valuers undertake a full external professional valuation of the Forest Estate at five yearly intervals. Following a public procurement exercise in 2012, Smiths Gore, Chartered Surveyors were appointed as the Commission's valuers as from the full valuation as at 31 March 2013. In accordance with RICS Appraisal and Valuation Standards (the 'Red Book'), the Forest Estate is valued under the Existing Use or Fair Value models as appropriate for obtaining a fair value. In the intervening years between professional valuations, custom indices are used to restate land values. The indices are provided by Smiths Gore who are contracted to undertake the work until 2017.

Areas of Forest estate and trees not apportioned to Biological Assets consist of many different land types which are ever changing. This means that revaluation reserve balances are applied to individual assets using an estimation technique detailed under Note 2.

Biological Assets

Timber growing on Forest Estate Land is categorised as Biological Asset Timber or Other Timber depending on the strategic objective the land is held to meet. Trees growing on land that is primarily held in support of the Scottish Government's objective of making a positive contribution to a thriving and sustainable Scottish economy are classed as Biological Assets under IAS 41 (Agriculture). Other trees are classed as Other Timber and are out-with the scope of IAS 41.

Biological Assets include standing trees and are measured at fair value less estimated point-of-sale costs. External professional valuers undertake a full external professional valuation at five yearly intervals. The valuation and intervening indexations are carried out by Smiths Gore, Chartered Surveyors as detailed above.

Holdings of plants and seed are also accounted for by Forest Enterprise Scotland as Biological Assets under IAS 41. They are stated at the lower of current cost and net

realisable value. Net realisable value is based on estimated selling prices, less further costs expected to be incurred to completion and disposal.

Revaluation gains and losses are recognised in the Statement of Comprehensive Net Income in the year of revaluation or indexation.

Non-forest land

Non-Forest Land is shown at fair value. Professionally qualified staff employed by Forest Enterprise Scotland undertake a full revaluation of non-forest land at five yearly intervals coinciding with that for the Forest Estate (31 March 2013). 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 Standards for determining fair value. The work of internal staff is reviewed by Smiths Gore. Agricultural land, open land and car parks are restated annually using indices provided by Smiths Gore with full professional revaluation taking place every 5 years.

Within Non-forest land there are areas classified as other land. These comprise land types for open land, car parks, other minor land and agricultural land. Revaluation reserve balances are applied and apportioned to individual assets using the average value per hectare by forest district as per annual indexations or professional revaluation. Individual revaluation reserve accounts have been put in place to account correctly for the movements in each land use. Further information on the accounting estimates and judgements involved are detailed in Note 2.

Dwellings and other buildings

Dwellings and other buildings are shown at fair value less accumulated depreciation. The threshold for capitalisation of buildings is £10,000.

Professionally qualified staff employed by Forest Enterprise Scotland undertake a full revaluation of dwellings and other buildings at five yearly intervals coinciding with that for the Forest Estate and Other 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 Standards for determining fair value. Suitably qualified external valuers review the work of internal professional valuers. A full valuation took place on 31 March 2013 and Smiths Gore, Chartered Surveyors, reviewed this.

The value of Dwellings and other buildings is restated annually between full revaluations using indices provided by the District Valuer and Smiths Gore Chartered Surveyors.

Expenditure on Infrastructure

To maximise the environmental, social and economic benefits of the National Forest Estate, Other Land, Biological Asset Timber and Other Timber, 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 in the Statement of Comprehensive Net Income of Forest Enterprise Scotland as they occur. Forest Enterprise Scotland takes the view that the professional valuations of its land and timber within the Accounts of Forest Enterprise Scotland 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.

Subsequent expenditure

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to Forest Enterprise Scotland and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the Statement of Comprehensive Net Income during the financial period in which they are incurred.

Non-current assets held for sale

Non-current assets are reviewed regularly to ensure that 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 assets, including surplus properties, take into account a number of factors including the social and environmental effects as well as marketability. Non-current assets are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale within twelve months of the reporting date is considered to be highly probable. Non-current assets held for sale are stated at the lower of carrying amount and fair value less costs to sell.

Vehicles, machinery and equipment

Forestry vehicles, machinery and equipment are shown at fair value less accumulated depreciation. Assets are revalued professionally every five years. A revaluation took place on 31 March 2011. Specialist forestry vehicles were valued by professionally qualified

staff employed by Forest Enterprise Scotland. Other assets were valued by CAP, a firm specialising in vehicle valuations. In the intervening years between professional valuations, values are restated using indices provided by the Office for National Statistics. The normal threshold for capitalisation of vehicles, machinery and equipment is £3,000.

Information technology

Information technology is shown at fair value less subsequent depreciation. 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 assets is £2,000.

Assets under construction

Assets under construction are carried at the costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Assets under construction are transferred to the appropriate property, plant and equipment category when completed and ready for use.

Revaluation reserve

Increases in the carrying amount arising on revaluation of property, plant and equipment are credited to the revaluation reserve in taxpayers' equity. Decreases arising from fluctuations in market conditions are first charged directly to revaluation reserve to offset any previous increases for the same asset. Amounts in excess of previous increases are expensed to the Statement of Comprehensive Net Income. Decreases arising from other factors are expensed directly to the Statement of Comprehensive Net Income. Any revaluation surplus held on an asset within revaluation reserve is transferred directly to retained earnings upon disposal.

1.5 Depreciation

Land (Forest Estate and Non-forest land) together with the value of trees not classified as Biological Assets are not depreciated.

Assets under construction are not depreciated until the asset under construction is capable of operating in the manner intended by management.

Depreciation is provided on all other property, plant and equipment 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 58 years
Plant and machinery held under a finance lease	unexpired term of lease
Information technology	over 4 to 20 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within the Statement of Comprehensive Net Income.

When revalued assets are sold, the amounts included in the revaluation reserve are transferred to the general fund.

1.6 Land and Buildings leased to customers

Assets leased to external parties under an operating lease is capitalised under the appropriate accounting policy. Operating lease income is accounted for on a straight line basis with any rental increases recognised during the period to which they relate.

1.7 Government grants receivable

Grants from the government are recognised at their fair value when there is reasonable assurance that the grant will be received and Forest Enterprise Scotland will comply with all attached conditions.

Government grants in respect of capital expenditure are credited to the Statement of Comprehensive Net Income, where UK and EU grants will be disclosed separately.

Grants received as a contribution towards an asset are also credited to the Statement of Comprehensive Net Income and will not be treated as a deduction from the cost of acquiring the asset.

Assets funded by government grants are classified within Property, plant and equipment. These assets depreciate by a fixed amount each month over the life of the asset where depreciation is treated as an expense in the same way as other assets.



1.8 Funding paid to Forest Enterprise Scotland

Forest Enterprise Scotland receives an annual funding Grant from Forestry Commission Scotland based on agreed programmes. This arrangement has been included in a framework document and is accounted for through the Statement of Comprehensive Net Income.

1.9 Public corporation dividend

Forestry Enterprise Scotland shall pay a dividend to Forestry Commission Scotland, reflecting the expected rate or return for the funding provided. This is accounted for through the Statement of Comprehensive Net Income. As the Agency operates on a net funded basis the Public Corporation Dividend has been set at 0%.

1.10 Inventories

Consumable materials and supplies are stated at the lower of current cost and net realisable value. Net realisable value is based on estimated selling prices, less further costs expected to be incurred to completion and disposal.

1.11 Revenue recognition

Income comprises the fair value of the consideration received or receivable from forestry and other activities. Revenue is shown net of value-added tax, returns, rebates and discounts.

Forest Enterprise Scotland recognises revenue when the amount of revenue can be reliably measured and it is probable that future economic benefits will flow to it.

1.12 Leases

Where substantially all the risk and rewards of ownership of a leased asset (a Finance Lease) are borne by Forest Enterprise Scotland, the right to use the asset is initially recorded as property, plant and equipment. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased asset and the present value of the minimum lease payments. A corresponding debt is recorded to the lessor represented by the minimum lease payments over the unexpired term of the lease. Where it is not possible to determine the interest rate implicit in the lease, discounting is on the basis of HM Treasury's rate of 3.5%.

Assets held under Finance Lease are depreciated over the shorter of the useful life of the asset and the term of the lease. The value of each underlying asset is revalued annually as though ownership of the asset was vested in Forest Enterprise Scotland. The policies and procedures for carrying out revaluations are those set out in 1.4 above.

Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in other payables. The interest element of the finance cost is charged to the Statement of Comprehensive Net Income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Costs (net of any incentives received from the lessor) in respect of operating leases (any lease other than a Finance Lease) are charged on a straight-line basis over the lease term.

1.13 Provisions

Forest Enterprise Scotland provides for present legal and constructive obligations which are of uncertain timing or amount at the reporting 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 cash flows are discounted using the real rate set by HM Treasury. The increase in the provision due to passage of time is recognised in the Statement of Comprehensive Net Income.

1.14 Value Added Tax (VAT)

The Forestry Commission is registered for VAT. In order to comply with the government accounting regulations and normal commercial practice, income and expenditure shown in the Statement of Comprehensive Net Income is net of VAT. Any VAT due to or from HM Revenue and Customs at the year end is included in the Forestry Commission Scotland accounts as a receivable or payable in the Statement of Financial Position. Irrecoverable VAT is charged to the Statement of Comprehensive Net Income in the year in which it is incurred.

1.15 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker responsible for allocating resources and assessing performance of the operating segments has been identified as the Forest Enterprise Scotland Management Board.

1.16 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the Forest Enterprise Scotland operates ('the functional currency'). The functional currency and the presentational currency of the financial statements is pounds sterling.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the banking transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of Comprehensive Net Income.

1.17 Impairment of non-financial assets

Assets that are subject to depreciation and amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Where an asset is not held for the purpose of generating cash flows, value in use is assumed to equal the cost of replacing the service potential provided by the asset, unless there has been a reduction in service potential. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets that suffer impairment are reviewed for possible reversal of the impairment at each reporting date.

1.18 Financial assets

Classification

Forest Enterprise Scotland classifies its financial assets in the following categories: as loans and receivables and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the reporting date. These are classified as non-current assets. Loans and receivables comprise trade and other receivables and cash and cash equivalents in the Statement of Financial Position.

(b) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the reporting date. Available for sale financial assets comprise investments.

Recognition and measurement

Financial assets are recognised when Forest Enterprise Scotland becomes party to the contractual provisions of the financial instrument.

Financial assets are derecognised when the rights to receive cash flows from the asset have expired or have been transferred and Forest Enterprise Scotland has transferred substantially all risks and rewards of ownership.

(a) Loans and receivables

Loans and receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of loans and receivables is established when there is objective evidence that Forest Enterprise Scotland will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the loan and receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the Statement of Comprehensive Net Income. When a loan or receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited in the Statement of Comprehensive Net Income.

(b) Available-for-sale financial assets

Available-for-sale financial assets are initially recognised and subsequently carried at fair value. Changes in the fair value of financial assets classified as available-for-sale are recognised in equity. When financial assets classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the Statement of Comprehensive Net Income. Dividends on available-for-sale equity instruments are recognised in the Statement of Comprehensive Net Income when Forest Enterprise Scotland's right to receive payments is established.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), Forest Enterprise Scotland establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

Forest Enterprise Scotland assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss is removed from equity and recognised in the Statement of Comprehensive Net Income. Impairment losses recognised in the Statement of Comprehensive Net Income on equity instruments are not reversed through the income statement.

1.19 Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are transferred to Forestry Commission Scotland and shown in its accounts within borrowings in current liabilities on the Statement of Financial Position.

1.20 Financial Liabilities

Classification

Forest Enterprise Scotland currently only classifies its financial liabilities as other financial liabilities. The classification depends on the purpose for which the financial liabilities were

issued. Management determines the classification of its financial liabilities at initial recognition.

Other financial liabilities

Other financial liabilities are included in current liabilities, except for maturities greater than 12 months after the reporting date. These are classified as non-current liabilities. Forest Enterprise Scotland's other financial liabilities comprise trade and other payables in the Statement of Financial Position.

Recognition and measurement

Financial liabilities are recognised when Forest Enterprise Scotland becomes party to the contractual provisions of the financial instrument.

A financial liability is removed from the Statement of Financial Position when it is extinguished, that is when the obligation is discharged, cancelled or expired.

Other financial liabilities

Other financial liabilities are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

1.21 Prior Year restatement

Unallocated revaluation reserve Forest Estate disposals

Revaluation reserve for Forest Estate has been restated to reflect the accounting required under IAS16 Fair Value Measurement. This requires the realised element of revaluation reserve to be transferred to general fund upon disposal of an asset. An analysis has been carried out for prior year disposals and the balances attributed to these disposals have been moved accordingly.

Prior year figures have been restated to reflect these changes and a reconciliation of restated balances is provided in Note 26.

1.22 Effective in these financial statements

All International Financial Reporting Standards, Interpretations and Amendments effective at 31 March 2015 have been adopted in these statements, taking account of the specific interpretations and adaptations included within the FReM.

1.23 Effective for future financial years

The following IFRSs, IFRIC Interpretations and Amendments, applicable to Forest Enterprise Scotland have been issued but are not yet effective and have not been adopted early.

IAS 1 Presentation of Financial Statements (Other Comprehensive Income);
IAS 16 Property, plant and equipment;
IAS 19 Post-Employment Benefits (Pensions);
IAS 24 Related Parties;
IAS 40 Investment properties;
IAS 27 Separate Financial Statements;
IFRS 9 Financial Instruments, Classification and Measurement;
IFRS 10 Consolidated Financial Statements;
IFRS 11 Joint arrangements;
IFRS 12 Disclosure of Interests in Other Entities; and
IFRS 13 Fair Value Measurement.

These standards have not been adopted by Forest Enterprise Scotland ahead of their implementation date. The future impact of IAS 1, 19 and 40, IFRS 10, 11 & 12 are not considered to be significant. Forest Enterprise is reviewing the likely impact of the adoption of IFRS 9, 13 and IAS 16, 24 and 27.

Forest Enterprise Scotland has also reviewed the changes in the FReM and determined that there was no significant impact on the accounts in 2014-15.

NOTE 2 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Critical accounting judgements and key sources of estimation uncertainty

In the application of Forest Enterprise Scotland accounting policies, judgements, estimates and assumptions need to be made about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying the accounting policies

The following are the critical judgements and estimates that have been made in the process of applying Forestry Commission Scotland's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

Valuation of the Forest Estate and Biological Assets

Management considers it would not be cost effective to carry out a five-yearly external professional valuation of all areas of woodland, including those with Biological Assets. Following advice from its professionally qualified statisticians, management considers that a reasonable valuation can be derived by carrying out on-site valuations of a random sample of properties representing between 8% and 10% of the Forest Estate and extrapolating these for the whole.

In reaching their sample valuations, it has been agreed by the external valuers and management that the most appropriate market factors to consider are location, species, age and quality (Yield Class) of the trees. It would not be cost effective to carry out each valuation based on the specific combination on the site. Management, in consultation with the external valuers, considers that valuations based on groups of factors provide robust valuations. The groups used are Location (Forest District), Species (Conifer crop or Broadleaved crop), Age (in 5-yearly age bands) and quality (High, Medium and Low Yield Classes).

Management also considers that the most appropriate market-based evidence of value is derived from the market for the sale of woodlands and forests over 50 ha in area. The external valuers subsequently apportion values to land and timber, including Biological Assets. As required under IAS 41 the fair value of Biological Assets is reduced by estimated costs to the point of sale. These costs are estimated at 5% and reflect the costs of selling the woodland or forest.

Other Land

Other Land primarily includes specialist land holdings for which there are no or limited external markets. Management considers that Forest Enterprise Scotland's internal professionally qualified staff are best placed to value this land. To ensure compliance with RICS valuation standards, external professional valuers review the work of the internal valuers for consistency and appropriateness. Where appropriate, management ensures that external professional valuations are obtained where active markets operate.

From 2013-14 revaluation reserve for Other Land has been split into categories for the following:

- Open land;
- Agricultural land;
- Assets closely related to land;
- Car Parks;
- Other minor land.

Revaluation reserve apportionment for Other Land and Forest Estate

With the exception of Assets closely related to land, Forest Enterprise Scotland is unable to identify revaluation reserve balances for individual elements of Other Land categories. In addition to this the same problem exists with Forest Estate Land and Trees. This is due to the volume of these elements as well as factors which result in regular changes of land use and area.

The revaluation reserve has therefore been apportioned across these categories based on their total book values as at 31 March 2014. It has been agreed that this is a reasonable estimation of the revaluation reserve for each category as at 1 April 2014.

As per the requirements of IAS 16 the realised element of revaluation reserve is transferred to general fund upon disposal of these assets. The realised element of revaluation reserve is calculated using a percentage apportionment based on the total revaluation reserve balance and book value of the asset categories being disposed. This is

applied to the disposal value to determine the realised element of revaluation reserve to be transferred.

It has been determined that this is the best estimation of revaluation reserve movement on disposal of these land types.

Dwellings and Other Buildings

Other Buildings primarily includes specialist buildings held for operational activities and for which there are no active external markets. Management considers that Forest Enterprise Scotland's internal professionally qualified staff are best placed to value these buildings. To ensure compliance with RICS valuation standards, external professional valuers review the work of the internal valuers for consistency and appropriateness. Where appropriate, management ensures that external professional valuations of Dwellings and Other Buildings are obtained where active markets operate.

Biological Assets

In applying IAS 41 (Agriculture) management considered the detailed criteria for classifying forestry activities as Agricultural. This determined that not all forestry activity carried out by Forest Enterprise Scotland could be regarded as Agriculture under the standard. It is considered that woodlands and forests that are primarily held and managed to meet the social and environmental objectives set out in "A Strategy for Scotland's Trees, Woods and Forests" do not meet the criteria for agricultural activity.

Management considers that it would not be cost effective to carry out a comprehensive analysis of the estate to determine whether areas are primarily held and managed to meet social and environmental objectives. It judges that areas included within its forecasts of commercial sales production are wholly attributable to Agricultural activity under IAS 41. Areas outwith the forecasts are judged to fall outside the scope of IAS 41.

Restoration of opencast coal sites – Contingent Liability

Restoration of opencast coal sites have currently been disclosed as a contingent liability in these accounts under IAS 36.

The costs relating to restoration of these sites has been stated as £17.4m based on estimations received from FCS Head of Estates & mineral agents. The level of restoration required is also uncertain and is based on a number of unknown factors. Therefore these costs could be subject to change. However, the costs quoted in these accounts are based on the most current information available to Management.

Management expects that restoration costs will be met and fully mitigated without any liability to Forest Enterprise Scotland. The mitigating factors and the estimation associated with these are as follows:

- East Ayrshire Council (EAC) as planning authority responsible has now pursued a number of restoration bond claims and has been successful in respect of two sites. The council is working with Scottish Mines Restoration Trust, Messrs Hargreaves, FES and other stakeholders in promoting restoration works which will deliver to a final agreed landform. Of particular relevance is the progress in connection with the following FC sites:
 - Dunston Hill – The contract for restoration of the site has now been awarded by EAC to Hargreaves Surface Mining and all parties have agreed the design plan proposed. Contractual terms in the form of a Restoration Services Agreement, which is between all the landowners and the Council is now anticipated, and will secure the terms under which the Councils contractors, Hargreaves will access and control the site. Restoration works began on 22 June and are proceeding as expected at this early stage.
 - Skares Road/Netherton – The final restoration on the former ATH site is the subject of continued negotiation between Hargreaves, FES and EAC. Bonding of £1.4m has been settled in favour of EAC and this will be utilised in helping to fund the works. Proposals for restoration of the larger site continue meaning areas within the National Forest Estate are not left with a significant void.
- Forest Enterprise Scotland has already been successful in securing a bond payment of an additional £1.75m;
- Forest Enterprise Scotland is working with Messrs Hargreaves, being the purchasers of the viable interests from the liquidators of both failed coal companies, to work with any remaining coal, involving a working method and which will further reduce restoration costs.

Management currently expect no liabilities or future outflows for the site restorations and have therefore deemed no provision is applicable under IAS16. However, a number of outcomes are still uncertain and the contingent liability disclosed in these accounts will be reviewed in 2015-16.



NOTE 3 SEGMENT INFORMATION

Management has determined that Forest Enterprise Scotland's operating segments are the same as the subheadings of the Statement of Comprehensive Net Income, with results reviewed by the chief operating decision maker for Forest Enterprise Scotland as a whole.

NOTE 4 STAFF NUMBERS AND RELATED COSTS

Staff costs comprise:

	<u>2014-15</u>	<u>2013-14</u>
	£000	£000
Salaries	23,444	22,989
Social security costs	1,716	1,709
Other pension costs	4,039	3,951
Temporary/agency	688	637
	<u>29,887</u>	<u>29,286</u>
Less recoveries in respect of outward secondments	(20)	(27)
	<u>29,867</u>	<u>29,259</u>

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme but Forestry Commission Scotland is unable to identify its share of the underlying assets and liabilities. This means that it is accounted for as a defined contribution scheme. The Scheme Actuary valued the scheme as at 31 March 2007. In order that the defined benefit obligations recognised in the financial statements do not differ materially from those that would be determined at the reporting date by a formal actuarial valuation, the FReM requires that “the period between formal actuarial valuations shall be four years, with approximate assessments in intervening years.” Consequently, a formal actuarial valuation would have been due by 31 March 2011. However, formal actuarial valuations for unfunded public service pension schemes have been suspended by HM Treasury on value for money grounds while consideration is given to recent changes to public service pensions and while future scheme terms are developed as part of the reforms to public service pension provision. You can find details in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice.gov.uk/my-civil-service/pensions).

For 2014-15, employers’ contributions of £3,827,000 were payable to the PCSPS (2013-14 £3,754,000) at one of four rates in the range 16.7% to 24.3% of pensionable pay, based on salary bands. The Scheme Actuary reviews employer contributions usually every four years following a full scheme valuation. The contribution rates are set to meet the cost of the benefits accruing during 2014-15 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 £31,300 were paid to one or more of the 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 £2,500, 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 or ill health retirement of these employees.

Contributions due to the **partnership** pension providers at 31 March were nil. Contributions prepaid at that date were nil.

One individual retired early on ill health grounds; the total additional accrued pension liabilities in the year amounted to £2,500 (2013-14: £2,000).

Average number of persons employed

Average number of whole-time equivalent persons employed:

Staff Numbers

			2014-15	2013-14
	Permanently employed staff Number	Others Number	Total Number	Total Number
Directly employed	770	52	822	821
Other		20	20	16
Total	770	72	842	837

Benefits in kind are provided under the following schemes:

- Advances of salary for house purchase (see Note 13);
- Advances of salary for purchase of public transport and car park season tickets;
- Advances of salary for purchase of sports/health club membership;
- Advances of salary for purchase of IT and sports/health equipment, including bicycles; and
- Car provision for employees' scheme.

Each scheme is subject to conditions and financial limits.

Compensation for loss of office

Exit package cost band	Number of compulsory redundancies		Number of other departures agreed		Total number of exit packages by cost band	
	2014-15	2013-14	2014-15	2013-14	2014-15	2013-14
<£10,000	-	-	-	0	-	0
£10,000 - £25,000	-	-	-	1	-	1
£25,000 - £50,000	1	-	-	0	1	0
£50,000 - £100,000	-	-	-	0	-	0
£100,000- £150,000	-	-	-	0	-	0
£150,000- £200,000	-	-	-	-	-	-
Total number of exit packages	1	-	-	1	1	1
Total resource cost / £	£25,909	£0	£0	£16,178	£25,909	£16,178

Redundancy and other departure costs have been paid in accordance with the provisions of the Civil Service Compensation Scheme, a statutory scheme made under the Superannuation Act 1972. Exit costs are accounted for in full in the year of departure. Where the department has agreed early retirements, the additional costs are met by the department and not by the Civil Service pension scheme. Ill-health retirement costs are met by the pension scheme and are not included in the table.

NOTE 5 OPERATING DEFICIT

The operating deficit net of Communities, recreation and tourism, Environment and heritage, Estate improvements, and Management services is stated after charging: -

		2014-15	2013-14
	Note	£000	£000
Hire of plant and equipment		1,793	1,464
Operating lease rentals:			
Land and buildings	18	188	172
Plant & machinery	18	239	185
Auditors' remuneration - audit work		62	62
Shared central services		5,423	5,725
Provisions:			
Provided in year	16	344	33
Provisions not required written back	16	(4)	(48)
Provisions utilised in year	16	(138)	(251)
Unwinding of discount	16	(59)	5
Depreciation of property, plant and equipment	7	3,879	3,781

Expenditure includes the cost of shared central services provided to Forest Enterprise Scotland. As part of the Forestry Devolution Review, shared central services are defined as those where a single provider is considered the best solution, in terms of practicality, cost of the needs of stakeholders although primary direction comes from the countries. Seven areas of work are identified as shared services:

- Finance and accounting services;
- Information services;
- Human resources, including Learning and Development;
- Communications;
- Inventory forecasting and operational support;
- Internal audit; and
- Business sustainability.

For each of the shared services, a service board was formed composed of "intelligent buyers" from the countries and Forest Research together with the service provider. The boards have joint accountability for the operation of these services to ensure the needs of

the customer and the wider organisation are met. Charges were made at regular intervals during the year.

Business Units charge for their services under service level agreements agreed with their service board. Expenditure was accounted for in each country at the time it was incurred. Until 31 March 2010, Business Units comprised Mechanical and Civil Engineering and Nurseries. Civil Engineering services were transferred to Forest Enterprise Scotland on 1 April 2010 and no longer form part of the Business Units.

The Forest Research Agency provides research development and survey services to Forest Enterprise Scotland through a service level agreement and charges internal Forest Enterprise Scotland customers in the year. The Forest Research Agency is charged for shared services and Business Unit costs where appropriate.

NOTE 6 GAIN/(LOSS) ON SALE OF PROPERTIES

	2014-15	2013-14
	<u>£000</u>	<u>£000</u>
Income	6,173	15,751
Book value	<u>(5,679)</u>	<u>(12,784)</u>
Gain/ (loss)	<u>494</u>	<u>2,967</u>
Disposal costs:		
External costs	(896)	(980)
Administrative expenses	<u>-</u>	<u>-</u>
	<u>(896)</u>	<u>(980)</u>
Surplus / (deficit) on sale of properties	<u>(402)</u>	<u>1,987</u>



NOTE 7 PROPERTY, PLANT AND EQUIPMENT

	Forest Estate £000	Land £000	Dwellings and other Buildings £000	VME £000	OME £000	Assets Under Construction £000	Total £000
Valuation :							
At 1 April 2014	945,223	194,380	51,899	21,621	486	1,162	1,214,771
Additions	3,743	5,062	-	1,549	38	1,484	11,876
Transfers	-	-	1,604	-	-	(1,604)	-
Transfers to NCAHFS	(1,141)	(56)	(860)	-	-	-	(2,057)
Disposals	(832)	(30)	(550)	(3,027)	(6)	-	(4,445)
Write-off / impairment	-	(60)	(1,929)	-	-	11	(1,978)
Revaluations	7,796	4,344	305	237	10	-	12,692
At 31 March 2015	954,789	203,640	50,469	20,380	528	1,053	1,230,859
Depreciation :							
At 1 April 2014	-	-	11,069	10,085	183	-	21,337
Provided during year	-	-	1,625	2,191	63	-	3,879
Transfers to NCAHFS	-	-	(240)	-	-	-	(240)
Disposals	-	-	(210)	(2,796)	(4)	-	(3,010)
Write-off / impairment	-	-	(13)	-	-	-	(13)
Revaluations	-	-	120	98	4	-	222
At 31 March 2015	-	-	12,351	9,578	246	-	22,175
Net Book Value :							
At 31 March 2015	954,789	203,640	38,118	10,802	282	1,053	1,208,684
At 1 April 2014	945,223	194,380	40,830	11,536	303	1,162	1,193,434
Asset Financing							
Owned	953,911	203,107	38,074	10,404	282	1,053	1,206,831
Finance leased	878	533	44	398	-	-	1,853
At 31 March 2015	954,789	203,640	38,118	10,802	282	1,053	1,208,684

	Forest Estate £000	Land £000	Dwellings and other Buildings £000	VME £000	OME £000	Assets Under Construction £000	Total £000
Valuation :							
At 1 April 2013	936,497	186,155	41,940	22,286	449	5,224	1,192,551
Additions	665	2,066	716	2,182	84	6,797	12,510
Transfers	-	-	10,859	-	-	(10,859)	-
Transfers to NCAHFS	(6,319)	(108)	(1,242)	-	-	-	(7,669)
Transfers from NCAHFS	-	-	-	-	-	-	-
Disposals	(336)	-	(341)	(2,890)	(21)	-	(3,588)
Fellings	-	-	-	-	-	-	-
Write-off / impairment	-	(4,067)	(295)	(5)	(4)	-	(4,371)
Revaluations	14,716	10,334	262	48	(22)	-	25,338
At 31 March 2014	945,223	194,380	51,899	21,621	486	1,162	1,214,771
Depreciation :							
At 1 April 2013	0.00	0.00	10,062	9,650	147	-	19,859
Provided during year	0.00	0.00	1,150	2,572	59	-	3,781
Transfers	0.00	0.00	-	-	-	-	-
Transfers to NCAHFS	0.00	0.00	(37)	-	-	-	(37)
Disposals	0.00	0.00	(162)	(2,153)	(15)	-	(2,330)
Write-off / impairment	0.00	0.00	-	-	-	-	-
Revaluations	0.00	0.00	56	16	(8)	-	64
At 31 March 2014	-	-	11,069	10,085	183	-	21,337
Net Book Value :							
At 31 March 2014	945,223	194,380	40,830	11,536	303	1,162	1,193,434
At 1 April 2013	936,497	186,155	31,878	12,636	302	5,224	1,172,692
Asset Financing							
Owned	944,354	193,854	40,786	10,927	303	1,162	1,191,386
Finance leased	869	526	44	609	-	-	2,048
At 31 March 2014	945,223	194,380	40,830	11,536	303	1,162	1,193,434

Smiths Gore, Chartered Surveyors carried out a professional valuation of the Forest Estate and Biological Assets as at 31 March 2013. The next professional valuation is due on 31 March 2018. For 2014-15 the assets were revalued using specialist forestry indices developed and provided by Smiths Gore. As at 31 March 2015 the Forest estate was valued at £954,789,000

As at 31 March 2013, non-forest land was valued at £186,155,000 and dwellings and other buildings at £31,878,000 by L H Tyson, FRICS who is Head of Estates. This was on the basis of Open Market Value, Existing Use Value, Depreciated Replacement Cost Value or discounted cash flows as appropriate under RICS guidance. The results of this valuation were also subject to professional review by Smiths Gore. The next full professional revaluation is due as at 31 March 2018. For 2014-15 valuations were updated using indices provided by Smiths Gore and valuations provided by Head of Estates. As at 31 March 2015 non-forest land was valued at £203,640,000 and dwellings and other buildings at £38,118,000.

Buildings assets comprise both freehold and leasehold assets.

Vehicles, Machinery and Equipment (VME) are valued at five-year intervals. A professional valuation took place on 31 March 2011. Professionally qualified staff employed by the Forestry Commission undertook the valuation which was approved by

Jeffrey Livingston, CEng, Head of Mechanical Engineering Central Services. In the intervening years, revaluations are on the basis of indices provided by the Office of National Statistics or internal professional staff as appropriate.

Office Machinery and Equipment (OME) was restated to a current value of £282,000 as at 31 March 2015 using an index provided by the Office for National Statistics.

Depreciation expense of £3,879,000 (2012-13: £3,781,000) has been charged in the Statement of Comprehensive Net Income.

NOTE 8 FINANCIAL ASSETS

	£000
As at 1 April 2013	1,450
Revaluation	-
As at 1 April 2014	1,450
Revaluation	(25)
At 31 March 2015	1,425

The investment represents Forest Enterprise Scotland's share in the Limited Liability Partnerships between the Forestry Commissioners, the Camping and Caravanning Club and Forest Holidays to operate holiday facilities within the Forestry Commission's land holdings.

On 21 September 2012, Forest Holidays LLP restructured its business and created two new Limited Liability Partnerships (LLP's). The two new LLP's are the Camping in the Forest (CITF) LLP and Forest Holidays LLP.

The fair value of Forest Enterprise Scotland's investments in CITF LLP and Forest Holidays LLP were £745,000 and £680,000 at 31 December 2014 respectively. The fair values were determined by Barrs & Co, specialist leisure consultants and chartered surveyors.

NOTE 9 BIOLOGICAL ASSETS

Non-current Biological Assets comprise of timber and plant & seed.

Timber growing on Forest Estate Land is categorised as Biological Asset Timber or Other Timber depending on the strategic objective the land is held to meet. Other Timber is out-with the scope of IAS 41.

Non-current Biological Assets Plants and Seeds are intended for new stocking or replanting in woodlands recorded in the accounts of Forest Enterprise Scotland or for sale to third parties.

The carrying value of total Biological Assets was £1,009,567,000 at 31 March 2015 (2013-14: £862,459,000).

Forest Estate including Biological Assets were valued using indexation information provided by Smiths Gore. The next full revaluation is due at 31 March 2018. Apportionment of Biological Assets were carried out by Forestry Commission staff using the judgements and estimates outlined at Note 2.

The movement in the Biological Asset balance during the period has been as follows:-

	2014-15	2013-14
	<u>£000</u>	<u>£000</u>
<i>Trees</i>		
At 1 April	861,768	862,770
Disposals	(719)	-
Fellings	(36,057)	(35,691)
Transferred to NCAHFS	(748)	(6,390)
Transferred from NCAHFS	-	-
Gains and losses arising from changes in fair values	184,088	41,079
At 31 March	1,008,332	861,768
<i>Plant & Seed</i>		
At 31 March	1,235	691
Biological Assets at 31 March	1,009,567	862,459
Biological assets transferred to NCAHFS and revalued down	(14)	(1,918)

NOTE 10 NON-CURRENT ASSETS HELD FOR SALE

The following assets related to surplus properties have been presented as held for sale following the approval for sale by the management of Forest Enterprise Scotland. The completion dates for sale are expected to be within the 12 months to 31 March 2015.

	Forest Estate	Other Land	Buildings	Total
	£000	£000	£000	£000
At 1 April 2013	1,960	229	1,054	3,243
Transfers from PPE & Biological Assets	12,709	108	1,206	14,023
Transfers to PPE & Biological Assets	-	-	-	-
Disposals	(10,176)	(295)	(1,056)	(11,527)
Impairments	(3,749)	-	(153)	(3,902)
At 31 March 2014	744	42	1,051	1,837
Transfers from PPE & Biological Assets	1,889	56	620	2,565
Transfers to PPE & Biological Assets	-	-	-	-
Disposals	(2,077)	(57)	(1,391)	(3,525)
Impairments*	(26)	-	(46)	(72)
At 31 March 2015	530	41	234	805

*Biological assets revaluation loss of £14,000 (2013-14: £1,918,000) is included within impairments and has been taken to the Statement of Comprehensive Net Income. Buildings revaluation loss of £8,000 (2013-14: £87,000) is also included within impairments and taken to the Statement of Comprehensive Net Income.

NOTE 11 FINANCIAL INSTRUMENTS

11 (a) Investments in non-public sector bodies (Available for sale financial assets)

	<u>2014-15</u>	<u>2013-14</u>
	£000	£000
Balance at 1 April	1,450	1,450
Revaluation	(25)	-
Balance at 31 March	<u>1,425</u>	<u>1,450</u>

Available for sale financial assets comprises Forest Enterprise Scotland's partnership share of Forest Holidays LLP and Camping in the Forest LLP, an unlisted investment denominated in UK pounds.

11 (b) Financial instruments by category

	2014-15			2013-14		
	<u>Loans and receivables</u>	<u>Available- for-sale</u>	<u>Total</u>	<u>Loans and receivables</u>	<u>Available- for-sale</u>	<u>Total</u>
	£000	£000	£000	£000	£000	£000
Assets as per Statement of Financial Position						
Available-for-sale financial assets	-	1,425	1,425	-	1,450	1,450
Trade and other receivables	14,792	-	14,792	15,952	-	15,952
Cash and cash equivalents	7,499	-	7,499	15,507	-	15,507
Total	<u>22,291</u>	<u>1,425</u>	<u>23,716</u>	<u>31,459</u>	<u>1,450</u>	<u>32,909</u>

	2014-15			2013-14		
	Liabilities at fair value through the profit and loss	Other financial liabilities	Total	Liabilities at fair value through the profit and loss	Other financial liabilities	Total
	£000	£000	£000	£000	£000	£000
Liabilities as per the Statement of Financial Position						
Finance lease liabilities	-	393	393	-	491	491
Trade and other payables excluding statutory liabilities	-	12,789	12,789	-	14,256	14,256
Total	-	13,182	13,182	-	14,747	14,747

11 (c) Exposure to risk

Forest Enterprise Scotland's activities expose it to a variety of financial risks.

- Credit risk – the possibility that other parties might fail to pay amounts due;
- Liquidity risk – the possibility that Forest Enterprise Scotland might not have funds available to meet its commitments to make payments; and
- Market risk – the possibility that financial loss might arise as a result of changes in measures such as interest rates and stock market movements.

Due to the way in which government departments are financed, Forest Enterprise Scotland is not exposed to the degree of financial risk faced by business entities.

Credit risk

Credit risks arise from cash and cash equivalents, deposits with banks and other institutions, as well as credit exposures to customers, including outstanding receivables and committed transactions.

Customers are assessed, taking into account their financial position, past experience and other factors, with individual credit limits being set in accordance with internal ratings and parameters set by Forest Enterprise Scotland.

Refer to Note 13 for further analysis of credit risk.

Liquidity risk

The Forestry Commission makes provision for the use of resources by Forest Enterprise Scotland for revenue and capital purposes each financial year. The Scottish Government makes provision for the Forestry Commission's use of resources in a Consolidated Fund

Act for each financial year. Resources and accruing resources may be used only for the purposes specified and up to the amounts specified in the Consolidated Fund Act. The Act also specifies an overall cash authorisation to operate for the financial year. Forest Enterprise Scotland is not therefore exposed to significant liquidity risks.

The table below analyses the financial liabilities into relevant maturity groupings based on the remaining period at 31 March to contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

	Less than 1 year	Between 1 and 5 years	Over 5 years
	£000	£000	£000
2014-15			
Finance lease liabilities	170	120	103
Trade and other payables excluding statutory liabilities	12,789	-	-
Total	12,959	120	103

	Less than 1 year	Between 1 and 5 years	Over 5 years
	£000	£000	£000
2013-14			
Finance lease liabilities	209	176	106
Trade and other payables excluding statutory liabilities	14,256	-	-
Total	14,465	176	106

Market risk

The Agency has no powers to borrow or invest surplus funds. Financial assets and liabilities are generated by day-to-day operational activities and are not held to manage the risks facing the Agency in undertaking its activities. However, under the Public Services Reform (Scotland) Act 2010 the Forestry Commissioners may form or participate in the forming of, a body corporate, invest in a body corporate, provide loans, establish charitable trusts and act or appoint a person to act, as an officer of a body corporate or as a trustee of a charitable trust. To date this power has not been exercised.

i) Cash flow and fair value interest rate risk

Forest Enterprise Scotland has no significant interest bearing assets or liabilities and as such income and expenditure cash flows are substantially independent of market interest rates.

ii) Foreign Currency Risk

Forest Enterprise Scotland does not generally undertake transactions in foreign currency; therefore exposure to foreign currency risk is minimal.

11 (d) Capital risk management

The Agency's objectives when managing its capital structure are to maintain its ability to continue to provide benefits for stakeholders and to maintain an optimal capital structure to safeguard Taxpayers' Equity.

11 (e) Fair value estimation

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair value.

NOTE 12 INVENTORIES

	<u>2014-15</u>	<u>2013-14</u>	<u>01-Apr-13</u>
	£000	£000	£000
Timber	6,137	4,633	3,242
Consumable materials, supplies and livestock	268	258	401
	<u>6,405</u>	<u>4,891</u>	<u>3,643</u>

NOTE 13 TRADE AND OTHER RECEIVABLES

13(a) Analysis by type

	<u>2014-15</u>	<u>2013-14</u>	<u>01-Apr-13</u>
	£000	£000	£000
Current			
Trade receivables	12,249	13,508	12,794
Less provision for impairment of trade receivables	(3)	(63)	(31)
Trade receivables - net	<u>12,246</u>	<u>13,445</u>	<u>12,763</u>
Other receivables	1,421	1,392	22
Partnership loan	-	-	-
Partnership lease	75	74	76
House purchase loans to employees	16	17	16
Prepayments and accrued income	5,721	4,234	1,942
Total current receivables	<u>19,479</u>	<u>19,162</u>	<u>14,819</u>
Non current			
Partnership loan	229	204	209
Partnership lease	770	769	794
House purchase loans to employees	35	51	69
Prepayments and accrued income	-	-	-
Total non-current receivables	<u>1,034</u>	<u>1,024</u>	<u>1,072</u>
Total receivables	<u>20,513</u>	<u>20,186</u>	<u>15,891</u>

The Advances of Salary for House Purchase scheme had loans with an outstanding balance of £2,500 or more relating to 7 members of staff at 31 March 2015 (2013-14 7 employees). The total outstanding value of all loans was £51,000 (2013-14: £68,000).

Such loans are unsecured, interest free and typically repayable over 10 years, with an optional 2 year deferral period.

The carrying amounts of trade and other receivables are a reasonable approximation of fair value.

As of 31 March 2015, trade receivables of £11,454,000 (2013-14: £12,724,000) were fully performing and not past due or impaired and provided for.

As of 31 March 2015, trade receivables of £1,336,000 (2013-14: £1,223,000) were past due but not impaired. These relate to a number of customers for whom there is no recent history of default.

The ageing analysis of these trade receivables is as follows:

	<u>2014-15</u>	<u>2013-14</u>
	£000	£000
Less than one month	277	627
One to two months	786	509
More than two months	273	87
	<u>1,336</u>	<u>1,223</u>

As of 31 March 2015, trade receivables totalling £3,000 were impaired and also provided for. These relate to 1 debt analysed as follows:

	<u>2014-15</u>	<u>2013-14</u>
	£000	£000
Advanced legal proceedings underway		1
Other	3	62
	<u>3</u>	<u>63</u>

The ageing of the trade receivables provided for is as follows:

	<u>2014-15</u>	<u>2013-14</u>
	£000	£000
Less than one month	-	-
One to two months	-	-
More than two months	3	63
	<u>3</u>	<u>63</u>

Movements in the provision for impairment of trade receivables are as follows:

	£000
At 1 April 2013	31
New provisions	63
Provisions utilised	(31)
Unused provision reversed	-
At 1 April 2014	63
New provisions	3
Provisions utilised	
Unused provision reversed	(63)
At 31 March 2015	3

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. Forest Enterprise Scotland does not hold any collateral as security.

The carrying amounts of trade and other receivables are denominated in GBP

13(b) Intra-Government Balances

	2014-15	2013-14	Current 01-Apr-13	2014-15	2013-14	Non current 01-Apr-13
	£000	£000	£000	£000	£000	£000
Balances with other central government bodies	305	29	-	-	-	-
Balances with local authorities	-	-	81	-	-	-
Balances with public corporations and trading funds	-	-	-	-	-	-
Intra-government balances	305	29	81	-	-	-
Balances with bodies external to government	19,174	19,133	14,738	1,034	1,024	1,072
Total trade and other receivables	19,479	19,162	14,819	1,034	1,024	1,072

NOTE 14 CASH AND CASH EQUIVALENTS

	<u>2014-15</u> £000	<u>2013-14</u> £000	<u>01-Apr-13</u> £000
Balance at 1 April	15,507	2,187	2
Net change in cash and cash equivalent balances	(8,008)	13,320	2,185
Balance at 31 March	7,499	15,507	2,187

The balances above are all held within Government Banking Service.

NOTE 15 TRADE AND OTHER PAYABLES

15(a) Analysis by type

	<u>2014-15</u> £000	<u>2013-14</u> £000	<u>01-Apr-13</u> £000
Current			
Trade payables	10,665	12,056	9,899
Other payables	85	17	248
Taxation and social security costs	70	67	76
Accruals and deferred income	3,773	3,401	3,816
Current part of finance leases	170	209	426
Total current payables	14,763	15,750	14,465
Non current			
Other payables	-	-	3
Accruals and deferred income	1,755	1,755	166
Finance Leases	223	282	370
Total non-current payables	1,978	2,037	539
Total payables	16,741	17,787	15,004

The carrying amounts of trade and other liabilities are a reasonable approximation of their fair value and are denominated in GBP Sterling.



15(b) Intra-Government Balances

	Current			Non current		
	<u>2014-15</u>	<u>2013-14</u>	<u>01-Apr-13</u>	<u>2014-15</u>	<u>2013-14</u>	<u>01-Apr-13</u>
	£000	£000	£000	£000	£000	£000
Balances with other central government bodies	52	56	48	-	-	-
Balances with local authorities	54	45	52	-	-	-
Balances with public corporations and trading funds	-	-	-	-	-	-
Intra-government balances	106	101	100	-	-	-
Balances with bodies external to government	14,657	15,649	14,365	1,978	2,037	539
Total trade and other payables	14,763	15,750	14,465	1,978	2,037	539

NOTE 16 PROVISIONS FOR LIABILITIES AND CHARGES

	Early Departure Costs	Public Legal Claims	Other Legal Claims	Total
	£000	£000	£000	£000
At 1 April 2013	687	44	110	841
Provided in year	13	15	5	33
Provisions not required written back	(17)	(19)	(12)	(48)
Utilised in year	(162)	(10)	(79)	(251)
Unwinding of discount	5	-	-	5
At 1 April 2014	526	30	24	580
Provided in year	8	224	112	344
Provisions not required written back	-	-	(4)	(4)
Utilised in year	(127)	-	(11)	(138)
Unwinding of discount	(59)	-	-	(59)
At 31 March 2015	348	254	121	723

Analysis of expected timing of discounted cash flows for balance at 31 March 2015:-

	Early Departure Costs	Public Legal Claims	Other Legal Claims	Total
	£000	£000	£000	£000
Within one year	95	254	121	470
Between 1 April 2016 and 31 March 2020	242	-	-	242
Between 1 April 2020 and thereafter	11	-	-	11
Thereafter	-	-	-	-
Utilised in year	348	254	121	723

Early departure costs

Forest Enterprise Scotland 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. Forest Enterprise Scotland provides for this in full when the early retirement



programme becomes binding on the agency by establishing a provision for the estimated payments.

Public and other legal claims

Provision has been made for various legal claims against Forest Enterprise Scotland. 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. 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.

NOTE 17 CAPITAL COMMITMENTS

Amounts contracted but not provided for in the accounts amounted to £679,000. This relates to outstanding building works as follows -

Buildings	
Refurbishment of David Marshall Lodge House, Aberfoyle	217,000
Woodfold Starter Farm	180,000
Fishnish Pier, Isle of Mull - Phase 2 weighbridge installation and concreting of pier surface	170,000
Refurbishment of Inver Offices - Phase 2 and Inver workshop, Tay	69,000
Water supply at Ardentinny toilet block, Argyll and Bute	30,000
Strontian office refurbishment and building of store, Acharacle	13,000
	679,000

	2014-15	2013-14
	<u>£000</u>	<u>£000</u>
Property, plant and equipment	<u>679</u>	<u>674</u>

NOTE 18 COMMITMENTS UNDER LEASES

18(a) Operating leases

Total future minimum lease payments under operating leases are given in the table below for each of the following periods.

	<u>2014-15</u> £000	<u>2013-14</u> £000
Obligations under operating leases for the following periods comprise:		
Buildings		
Not later than one year	93	124
Later than one year and not later than five years	304	418
More than five years	156	161
	<u>553</u>	<u>703</u>
	<u>2014-15</u> £000	<u>2013-14</u> £000
Land		
Not later than one year	94	48
Later than one year and not later than five years	376	146
More than five years	2,989	482
	<u>3,459</u>	<u>676</u>
	<u>2014-15</u> £000	<u>2013-14</u> £000
Plant and Machinery		
Not later than one year	239	185
Later than one year and not later than five years	69	76
More than five years	-	-
	<u>308</u>	<u>261</u>

18(b) Finance leases

Total future minimum lease payments under finance leases are given in the table below for each of the following periods.

	<u>2014-15</u>	<u>2013-14</u>
	£000	£000
Obligations under finance leases for the following periods comprise:		
Buildings		
Not later than one year	4	4
Later than one year and not later than five years	15	15
More than five years	160	165
	<u>179</u>	<u>184</u>
Less interest element	(69)	(72)
	<u>110</u>	<u>112</u>
Plant and Machinery		
Not later than one year	176	220
Later than one year and not later than five years	119	179
More than five years	-	-
	<u>295</u>	<u>399</u>
Less: interest element	(12)	(20)
Present value of obligations	<u>283</u>	<u>379</u>

NOTE 19 OTHER FINANCIAL COMMITMENTS

There no other financial commitments as at 31 March 2015 (2013-14: £nil).

NOTE 20 LEASE RECEIVABLES

20(a) Operating leases

The future minimum lease payments receivable under non-cancellable operating leases are as follows:

	<u>2014-15</u>	<u>2013-14</u>
	£000	£000
Not later than one year	4,132	3,732
Later than one year and not later than five years	13,446	13,152
More than five years	30,936	29,308
	<u>48,514</u>	<u>46,192</u>

Forest Enterprise Scotland leases land and buildings under agreements that terminate between April 2015 and December 2099.

20(b) Finance leases

Total future minimum lease receivables under the Forest Holiday partnership buildings lease are given in the table below for each of the following periods:

	<u>2014-15</u>	<u>2013-14</u>	<u>01-Apr-13</u>
	£000	£000	£000
Less than one year	74	74	76
Later than one year and not later than five years	296	294	303
More than five years	5,181	5,145	5,306
	<u>5,551</u>	<u>5,513</u>	<u>5,685</u>
Less: interest element	(4,707)	(4,669)	(4,815)
Present value of receivables	<u>844</u>	<u>844</u>	<u>870</u>

NOTE 21 CONTINGENT LIABILITIES DISCLOSED UNDER IAS 37

At 31 March 2015, there were contingent liabilities totalling £17.4m (2013-14: £21.2m) which shows a reduction on the figure at 31 March 2014 of £3.8m. This relates to restoration of opencast coal sites following the liquidation of Scottish Coal Company Ltd and Aardvark TMC Ltd, accidents, damages to properties and employers liability claims.

There has been considerable activity during the year which has significantly reduced the potential liability as referred to above and work continues in a positive direction towards satisfactory restoration.

Restoration of opencast coal sites

The level of restoration required on the opencast coal sites continues to be uncertain at this time and is dependent on the factors described below. The total costs of restoration are therefore also uncertain.

Total costs assessed by our mineral agents to restore the opencast coal sites within the NFE in Galloway Forest District is estimated at £17.4m, based upon the revised restoration plans which have been agreed for Dunston Hill and Skares Road/Netherton and the original planning consent for Chalmerston.

Relevant considerations are:

- East Ayrshire Council (EAC) as planning authority responsible has now pursued a number of restoration bond claims and has been successful in respect of two sites, where the current situation can be summarised as:
 - Dunston Hill – The contract for restoration of the site has now been awarded by EAC to Hargreaves Surface Mining and all parties have agreed the design plan proposed. Contractual terms in the form of a Restoration Services Agreement which is between all the landowners and the council is now anticipated, and will secure the terms under which the Councils contractors, Hargreaves, will access and control the site. Restoration works began on 22 June and are proceeding as expected at this early stage. Whilst the current liability within the NFE, based upon the revised restoration plan, is assessed at £720k (included in the total contingent liability above) the completion of this work at no cost to FCS will remove requirement for further restoration, or liability.

- Skares Road/Netherton – A revised restoration plan on the former ATH site is the subject of continued negotiation between FES, EAC and Hargreaves Surface Mining, being the purchasers of the viable interests from the liquidators. Bonding of £1.4m has been settled in favour of EAC and this will be utilised in helping to fund the works. The current liability figure in respect of the NFE and included in the total liability above, is assessed at £1.73m based upon the revised restoration plan being agreed with all parties. Again Messrs Hargreaves are expecting to be able to complete restoration of this site at no cost to FCS and upon completion of the works all outstanding liability will be removed.
- FES is working with Messrs Hargreaves and EAC on potential for restoration of the sites known as Chalmerston North and Chalmerston North Extension. Discussions are ongoing in respect of potential for working any remaining coal, also to utilise bonding in favour of the Council who have instituted legal proceedings calling upon the bonds. As with other sites, all parties are looking towards a solution which achieves an acceptable restoration plan, making best use of the available resources. Whilst a revised restoration plan is not yet available for costing, it is likely that this will be significantly below the £16.7m which is currently included within the total liability figure referred to above and based upon the original planning consent.
- Forest Enterprise Scotland has already been successful in securing a bond payment of an additional £1.75m, hence this element of the works is not a liability.

This is a complex situation, involving many different parties; however current expectations are that the land will be restored to a standard acceptable to the planning authority, without further liability for Forest Enterprise Scotland.

Accidents, damages to properties and employers liability claims

Estimated costs relating to accidents, damages to properties and liability claims are estimated to be £9,000.

Legal advice indicates that some claims can be successfully resisted and that no damages are likely to be awarded.

HMRC Tax Audit

An HMRC audit of the Forestry Commission's treatment of VAT and Income Tax is underway. All tax liabilities identified have been settled during 2014-15

The HMRC audit is continuing into 2015-16 and in accordance with IAS 37, an unquantifiable contingent liability is disclosed to recognise the possibility of future non-compliance liabilities arising from the audit.

Prior year overtime liabilities

Negotiations are currently ongoing with Trade Unions to determine and agree non contractual overtime included in holiday pay for employees. This is after an Employment Appeal Tribunal ruling in November 2014

Forest Enterprise Scotland has made a provision for 2014-15 liabilities and it is unlikely that liabilities prior to this period exist.

NOTE 22 LOSSES AND SPECIAL PAYMENTS

	Number	2014-15 £000	Number	2013-14 £000
Losses total	36	136	26	54
Special payments total	40	409	34	2,256
	76	545	60	2,310

NOTE 23 RELATED PARTY TRANSACTIONS

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

In addition, Forestry Enterprise Scotland has had various material transactions with other government departments and other central government bodies. The main entities within government with which Forest Enterprise Scotland has had dealings are Scottish Government and its Agencies, Paymaster General's Office and HM Revenue and Customs.

23(a) Sales of goods and services

The value of purchases from Forest Enterprise Scotland in the year to 31 March 2015 was:

	2014-15
	<u>£000</u>
BSW Timber plc	4,761
Howie Forest Products	6,290
	<u>11,051</u>

23(b) Year end balances arising from sale of goods and services:

Amounts owing to Forest Enterprise Scotland at 31 March 2015 were:

	2014-15
	<u>£000</u>
BSW Timber plc	669
Howie Forest Products	710
	<u>1,379</u>

The above transactions for timber sale occurred on an arms length basis and are disclosed because: -

- Hamish Macleod, a non-executive Forestry Commissioner, is Joint Managing Director of Howie Forest Products Ltd. BSW acquired Howie Forest Products Ltd in November 2009, therefore transactions with BSW have also been disclosed from this date.



23(c) Other

Michael Ansell, Head of Forest Renewables received a Grant payment through the Forest Woodland Premium Scheme for £18,839.76. This was paid through the Scottish Government Rural Payments Inspectorate Division which is a paying agency for Forestry Commission Scotland.

The husband of Amanda Bryan, Chair for National Committee Scotland is director with Aigas Community Forest. Aigas paid Forest Enterprise Scotland £760,000 for the purchase of Aigas forest through the National Forest Land Scheme. An outstanding rental of £1,048 was paid to Aigas Community Forest by Forest Enterprise Scotland for an outstanding rental

23(d) Key management compensation

Refer to the Remuneration Report for further details of the remuneration of Board members.

23(e) Loans to related parties

Refer to the Remuneration Report for further details of loans to Board members.

NOTE 24 THIRD PARTY ASSETS

Forestry Enterprise Scotland rents land in Lael Forest, Garrygualach and Lochaber to Npower Renewables Ltd and Nevis Range Development Co PLC, for use in its hydro electric business. As part of the rental agreements, Npower Renewables Ltd and Nevis Range Development Co PLC credited Forest Enterprise with restoration bonds at the lease commencement. These bonds must be kept by Forest Enterprise Scotland in an interest bearing account, separate from Forest Enterprise's own assets. On termination of the lease, the bonds along with all interest accrued must be repaid for the purpose of restoring the land to its original condition.

In the event that Npower Renewables Ltd and Nevis Range Development Co Ltd fail to carry out the restoration works to an agreed standard or within an agreed timescale, Forest Enterprise Scotland will recover all reasonable costs of carrying out the restoration work from the amount held.

	Gross Inflows	Gross Outflows	2014-15 Closing Balance	2013-14 Closing Balance
	£000	£000	£000	£000
Lael	-	-	10	10
Nevis Range	-	-	5	5
Garrygualach	-	-	5	5
Total	-	-	20	20

As these balances are held for third parties they are not included in the primary financial statements of Forest Enterprise Scotland.

NOTE 25 EVENTS AFTER 31 MARCH 2015

In accordance with the requirements of IAS 10, events after 31 March 2015 are considered up to the date on which the accounts are authorised for issue. The Accountable Officer authorised these financial statements for issue on July 2015.

NOTE 26 RECONCILIATION OF RESTATED BALANCES

Balances from 1 April 2013 have been restated in accordance with the 2014-15 FReM as explained in Note 1.21. A reconciliation of the restated balances is provided below:

	Note	Per 2013-14 Published Accounts £000	Restated Balance £000	Adjustment £000	Description of Adjustment
Statement of Financial Position					
General fund	SFP	1,142,461	1,167,886	(25,425)	Restatement for Forest Estate disposals pre 2014-15 as per IAS 16
Revaluation reserve	SFP	938,936	913,511	25,425	Restatement for Forest Estate disposals pre 2014-15 as per IAS 16
Taxpayers equity	SFP	2,081,397	2,081,397	-	
Statement of Changes in Taxpayer's Equity					
<u>General Fund</u>					
Opening balance	SOCE	1,130,203	1,150,098	(19,895)	Restatement for Forest esate disposals prior to 2013-14 as per IAS 16
Realised element of reserves	SOCE	1,107	6,637	(5,530)	Restatement for Forest esate disposals prior to 2014-15 as per IAS 16
Closing balance at 31 March 2014	SOCE	1,142,461	1,167,886	(25,425)	
<u>Revaluation Reserve</u>					
Opening balance	SOCE	916,658	896,763	19,895	Restatement for Forest esate disposals prior to 2013-14 as per IAS 16
Realised element of reserves	SOCE	(1,107)	(6,637)	5,530	Restatement for Forest esate disposals prior to 2014-15 as per IAS 16
Closing balance at 31 March 2014	SOCE	938,936	913,511	25,425	



FOREST ENTERPRISE SCOTLAND

DIRECTION BY THE SCOTTISH MINISTERS

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

1. The Scottish Ministers, in pursuance of section 45(1) of the Forestry Act 1967, hereby give the following direction.
2. The statement of accounts for the financial year ended 31 March 2010, and subsequent years, shall comply with the accounting principles and disclosure requirements of the edition of the Government Financial Reporting Manual (FRM) which is in force for the year for which the statement of accounts are prepared.
3. The accounts shall be prepared so as to give a true and fair view of the income and expenditure and cash flows for the financial year, and of the state of affairs as at the end of the financial year.
5. This direction shall be reproduced as an appendix to the accounts and supersedes that dated 11 May 2006.



Signed by the authority of the Scottish Ministers

Dated: 23 July 2010



Forestry Commission Scotland
Coimisean na Coilltearachd Alba