

# Annual Report and Accounts 2017/18

**SG2018/148**

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## Introduction

by Amanda Bryan, Chair, National Committee Scotland

In March 2018, the Forestry and Land Management (Scotland) Bill completed its final parliamentary stage and was passed unanimously by MSPs. The Bill provides a modern legislative framework to develop, support and regulate forestry in Scotland, including a requirement for a Scottish forestry strategy and a duty to promote sustainable forest management. Ministers will now establish two agencies of the Scottish Government (SG), Forestry and Land Scotland and Scottish Forestry, to deliver their forestry responsibilities.

Many Forestry Commission Scotland (FCS) and FES staff have worked closely with Scottish Government colleagues to prepare for the various parliamentary stages and on related work. Their expertise helped inform the creation of the new legal framework and the staff contribution has been highly valued in the lead up to this significant milestone. With this key milestone achieved, work to complete the devolution of forestry continues at pace, again with input from across both organisations. Thank you to all staff for their support and commitment over the last year.

While preparing for the changes to come with the establishment of Forestry and Land Scotland, FES has continued to focus on the practical management and delivery of benefits from Scotland's National Forest Estate.

During this time we have planted 735 hectares of new woodland, restocked over 4,920 hectares of felled area and over 60km of timber haulage routes have been constructed. We treated over 21,000 hectares of invasive rhododendron, including 413 hectares of initial clearance. We are making good progress with Planted Ancient Woodland Site (PAWS) restoration with 350 hectares of non-native plantations felled on ancient woodland sites and a further 230 hectares thinned.

2017/18 has been another successful year for the organisation in terms of award nominations and successes. Cuningar Woodland Park and Footbridge won the Community Award at the prestigious Saltire Civil Engineering Awards, with judges impressed with the exemplar engagement with local community bodies to deliver a sustainable public park for the future.

Our work on the North Kyle Forest Masterplan won the Strategic Landscape Planning Award at the Landscape Institute Awards. The map-based masterplan for the North Kyle Forest in Ayrshire included ideas for social, environmental, cultural and economic projects within the area. In November 2017, the Trossachs Water Vole Project was Highly Commended in the Species Champion category of the RSPB's Nature of Scotland Awards. Over 1000 water voles were released into restored wetlands on FES sites in the Trossachs. This has led to a thriving population in the Trossachs and beyond.

The Community Asset Transfer Scheme (CATS) for Scotland's National Forest Estate sets out how we will deliver the asset transfer rights for communities covered in Part 5 of the Community Empowerment (Scotland) Act 2015. It builds on our long experience of

working with communities through the National Forest Land Scheme and is part of our wider programme for community engagement and participation. Over the past 12 months we have engaged with more than 30 communities across the country about CATS. This has resulted in the approval of the first transfer in 2017 of the sale of land at Glen Brittle, Skye, to Minginish Community Hall Association, to allow the construction of an extended car park to relieve traffic congestion arising from visitors viewing the Fairy Pools.

Some great examples of where we have continued to engage communities to promote the health benefits that can be enjoyed in our forests and woodlands can be found in work taking place in Scottish Lowlands Forest District. The Woodland Activity Programme involves providing woodland activities to people with early stage dementia to help promote and enhance wellbeing, sensory stimulation, social development and nature connectedness. We have also delivered Outdoor Learning sessions to children and further developed the opportunities available by training teachers from 14 schools on how to lead and deliver a range of outdoor learning experiences.

We continue to contribute to the Scottish Government's renewable energy targets and climate change plan. At the end of the financial year we had over 1GW of operational renewable capacity on the National Forest Estate, made up from 62 hydro-electric schemes and 19 wind farms. The wind element is approximately 20% of Scotland's operational on-shore wind capacity; generating a quarter of all community benefit payments; producing enough energy for over half a million households; and displacing about 1 million tonnes of CO<sup>2</sup> each year.

The health and safety of visitors to Scotland's National Forest Estate remains of paramount importance. We continue to work with the Visitor Safety in the Countryside Group, outdoor access organisations and event organisers to promote safe use of the National Forest Estate. Over the past year our new Health, Safety and Welfare Team has engaged in a project with various stakeholders and organisations to raise the understanding and appropriate management of third party agreements. We are continuing to work with our staff and contractors to improve the way work sites are signed, and to provide practical alternative routes around dangerous operations. Work on the effective management of "Wild trail" building in partnership with the National Access Forum, Scottish Land & Estates, Confor, mountain bikers and other stakeholders continues.

Connecting with Team Scotland has been a priority with closer working with Ministers (on whose behalf we manage the estate) and Scottish Government colleagues as we move closer to the new organisational arrangements. We have had a number of visits from Ministers over the past 12 months including at the first ever Forest Tourism Summit held at Glentress, Tweed Valley Forest Park. The summit brought together a wide range of public and private tourism interests to listen to ideas, seek new opportunities and address economic challenges within the sector, with key note speeches from Fergus Ewing MSP, Cabinet Secretary for The Rural Economy and Connectivity, and Fiona Hyslop MSP, Cabinet Secretary for Culture, Tourism and External Affairs.

We have taken steps to strengthen our approach to equality, diversity and inclusion over the past 12 months. As we get closer to the new legislative arrangements for forestry in

Scotland, we have undertaken a range of work to put us in a better position to meet our equality duties, including mainstreaming equality issues and implementing a new approach to equality impact assessment. We have also established a partnership with the organisation Equate Scotland to better understand the range of positive action measures that we can take to help increase the gender diversity of our workforce.

We have achieved a huge amount over the past year against a background of change for the organisation. I would like to thank all staff for their hard work across the organisation to help deliver the benefits of the National Forest Estate.

Amanda Bryan  
Chair, National Committee for Scotland

## Ro-ràdh

### le Amanda Bryan, Cathraiche, Comataidh Nàiseanta na h-Alba

Chaidh Bile Coilltearachd is Stiùireadh Fearainn (Alba) tron cheum phàrlamaideach mu dheireadh aige anns a' Mhàirt 2018 agus chaidh aontachadh gu h-aona-ghuthach le BPA. Tha am Bile a' cruthachadh frèam reachdail nuadh gus coilltearachd a leasachadh, a riaghladh agus gus taic a thoirt do choilltearachd, a' gabhail a-steach riatanas gum bi ro-innleachd ann airson coilltearachd ann an Alba cho math ri dleastanas a bhith a' brosnachadh stiùireadh seasmhach air coilltean. Tha Ministearan a-nis gu bhith a' stèidheachadh dà bhuidhinn de Riaghaltas na h-Alba, Coilltearachd is Fearann Alba agus Coilltearachd na h-Alba, gus na dleastanasan aca a thaobh coilltearachd a choileanadh.

Dh'obraich iomadh neach-obrach aig Coimisean na Coilltearachd Alba agus Iomairt Coilltearachd Alba gu dlùth le co-obraichean ann an Riaghaltas na h-Alba gus ullachadh airson nan diofar ìrean pàrlamaideach agus air obair eile co-cheangailte ri seo. Chuidich an cuid eòlais is sgil gus am frèam laghail ùr a chruthachadh agus thathar a' cur luach nach beag anns na rinn luchd-obrach agus sinn ag obair a dh'ionnsaigh na clach mìle cudromaich seo. Agus a' phrìomh chlach mhìle seo air a coileanadh, tha obair a leantainn gu luath gus crìoch a chur air a' phròiseas gus coilltearachd a thiomnadh, a-rithist le taic bhon dà bhuidhinn. Tapadh leibh dhan luchd-obrach uile airson an taic is dìcheall thairis air a' bhliadhna mu dheireadh.

Aig an aon àm sa bhathar ag ullachadh airson stèidheachadh Coilltearachd is Fearann Alba, tha fòcas Iomairt Coilltearachd Alba air leantainn air a bhith a' stiùireadh Oighreachd Nàiseanta nan Coilltean ann an dòigh phrataigeach agus a bhith a' faighinn buannachdan às.

Tron àm seo, tha sinn air 735ha de choilltearachd ùr a chur, tha sinn air craobhan a chur air ais air còrr is 4,920ha far an deach craobhan a leagail, agus chaidh còrr is 60km de rathaidean-coilltearachd a thogail. Dh'èilig sinn ri còrr is 21,000ha de rodaideandran

sgaoilteach, a' gabhail a-steach 413ha de chlioradh tòiseachail. Tha sinn a' dèanamh deagh adhartas le ath-shlànachadh nan Làraichean Coillteach Àrsaidh Planntaichte (*Planted Ancient Woodland Site - PAWS*) le còrr is 350ha de phlanntachasan neo-dhùthchasach a leagail agus tha sinn air obair lùghdachaidh a dhèanamh air 230ha a bharrachd.

Tha 2017/18 air a bhith na bhliadhna shoirbheachail eile airson na buidhne airson a bhith air ar moladh airson duaisean, agus a bhith a' buannachadh duaisean. Bhuannaich Pàirce Coille agus Drochaid-choise Chuningar Duais na Coimhearsnachd aig Duaisean cliùiteach Saltire na h-Innleadaireachd-togail, agus bha na britheamhan fìor thoilichte leis an obair chom-pàirteachaidh air leth math a rinneadh le buidhnean coimhearsnachd ionadail gus pàirce phoblach sheasmhach a chruthachadh airson an àm ri teachd.

Bhuannaich an obair againn air Àrd-Phlana Coilltearachd a' Chaoil a Tuath an Duais airson Planadh Cruth-tìre Ro-innleachdail aig Duaisean Institiud a' Chruth-tìre. Bha an t-àrd-phlana airson Coille a' Chaoil a Tuath ann an Siorrachd Àir a' gabhail a-steach beachdan airson pròiseactan sòisealta, àrainneachdail, cultarach agus eaconamach anns an sgìre. San t-Samhain 2017, chaidh Pròiseact Famhalan nan Tròisichean Àrd Mholadh ann an raon Gaisgich nan Gnèithean ann an Duaisean Nàdair na h-Alba aig an RSPB. Chaidh còrr is 1000 famhalan a leigeil mu sgaoil air talamh fliuch ath-stèidhichte aig Iomairt Coilltearachd Alba anns na Tròisichean. Tha àireamhan fallainn de dh'fhamhalain anns na Tròisichean agus nas fhaide air falbh a-nis mar thoradh air seo.

Tha Sgeama Gluasad Stòrasan dhan Choimhearsnachd airson Oighreachd Nàiseanta nan Coilltean a' cur an cèill mar a libhrigeas sinn na còraichean gus stòrasan a thoirt do na coimhearsnachd a tha a' tighinn fo Phàirt 5 de Bhile Cumhachdachadh nan Coimhearsnachdan (Alba) 2015. Tha e a' togail air an eòlas nach beag air obrachadh còmhla ri coimhearsnachdan tron Sgeama Fearann Coilltearachd Nàiseanta agus tha e mar phàirt den sgeama nas fharsainge againn airson com-pàirteachadh coimhearsnachd. Anns na 12 mìosan seo chaidh, rinn sinn obair chom-pàirteachaidh le còrr is 30 coimhearsnachd air feadh na dùthcha mu Sgeama Gluasad Stòrasan dhan Choimhearsnachd. Mar thoradh air seo, chaidh a' chiad gluasad dhan choimhearsnachd aontachadh ann an 2017 nuair a chaidh aontachadh gun rachadh talamh ann an Gleann Bhreatail san Eilean Sgitheanach a reic ri Comann Talla-coimhearsnachd Minginis, gus an gabhadh pàirce-chàraichean nas motha a dhèanamh mar fhuasgladh air an trafaig bho luchd-tadhail a tha a' coimhead air Glumagan nan Sìthichean.

Chithear deagh eisimpleir den obair chom-pàirteachaidh againn le coimhearsnachdan a thaobh nam buannachdan slàinte aig coilltean anns an obair a tha sinn a' dèanamh ann an Sgìre Coilltearachd na Galldachd. Bidh Prògram Gnìomhachd na coille a' cruthachadh ghnìomhachdan sa choille do dhaoine air a bheil seargadh-inntinn aig ìre thràth, gus slàinte, mothachadh, leasachadh sòisealta agus ceangal ri nàdar a bhrosnachadh. Tha sinn cuideachd air seiseanan Ionnsachadh A-muigh a ruith airson clann agus tha sinn air cur ris na cothroman airson seo le bhith a' trèanadh luchd-teagaisg bho 14 sgoiltean mu bhith a' stiùireadh is a' libhrigeadh farsaingeachd de chothroman ionnsachaidh air a' bhlàr a-muigh.

Tha sinn a' cumail oirnn le bhith a' cur ri targaidhean Riaghaltas na h-Alba airson cumhachd ath-nuadhachail agus ris a' phlana airson atharrachadh cliomaid. Aig deireadh

na bliadhna, bha còrr is 1GW againn de chomas chumhachd ath-nuadhachail gnìomhach air Oighreachd Nàiseanta nan Coilltean, air a dhèanamh suas de 62 sgeamaichean hàidreo agus 19 tuathanasan gaoithe. Tha na tuathanasan gaoithe seo a' dèanamh suas mu 20% de chumhachd na gaoithe obrachail air tìr ann an Alba; cruthaichidh seo mu chairteal de na pàighidhean leas-coimhearsnachd air fad; nì iad gu leòr cumhachd airson còrr is leth mhillean dachaighean, agus bidh iad a' lùghdachadh sgaoileadh de CO2 le mu mhillean tunna gach bliadhna.

Tha slàinte is sàbhailteachd luchd-tadhail nan coilltean fhathast air leth cudromach dhuinn. Tha sinn ag obair còmhla ri Buidheann Sàbhailteachd Luchd-tadhal air an Dùthaich, buidhnean airson ruigsinneachd a-muigh agus co-òrdanaichean thachartasan airson a bhith a' brosnachadh cleachdadh sàbhailte de dh'Oighreachd Nàiseanta nan Coilltean. Thairis air a' bhliadhna mu dheireadh, tha an sgioba Slàinte, Sàbhailteachd agus Sunnd againn air pàirt a ghabhail ann am pròiseact còmhla ri diofar luchd-ùidh agus buidhnean gus barrachd tuigse agus stiùireadh iomchaidh a bhrosnachadh a thaobh aontaidhean le treas-phàrtaidhean. Tha an obair againn a' leantainn leis an luchd-obrach againn agus le luchd-cùmhnaint gus piseach a thoirt air an dòigh anns a bheil soidhnichean gan cleachdadh air làraichean-obrach, agus gus slighean eile a chur air dòigh timcheall air àiteachan-obrach cunnartach. Tha obair air stiùireadh èifeachdach de thogail nan "Slighean Fiadhaich" a' leantainn ann an com-pàirteachas le Fòram Nàiseanta na Ruigsinneachd, Fearann is Oighreachdan na h-Alba, Confor, luchd nam baidhsagal-beinne agus luchd-ùidh eile.

Tha ceangal ri Sgioba na h-Alba air a bhith na prìomhachas, le obair nas dlùithe le Ministearan ('s ann às an leth a bhios sinn a' stiùireadh na h-oighreachd) agus le co-obrachaidhean Riaghaltas na h-Alba agus sinn a' gluasad nas fhaisg air na structaran ùra. Tha Ministearan air tadhail oirnn grunn thursan thairis air an dusan mìos a dh'fhalbh, a' gabhail a-steach a' chiad Àrd-choinneamh airson Turasachd, a chaidh a chumail ann an Glentress ann am Pàirc Coille Shraith Thuaidh. Thàinig farsaingeachd de luchd-ùidh poblach is prìobhaideachd ann an turasachd còmhla, gus èisteachd ri beachdan, gus cothroman ùra a lorg agus gus aghaidh a chur air dùbhlain eaconamach anns an raon, le prìomh òraidean bho Fhearghas Ewing BPA, Rùnaire a' Chaibineit airson na h-Eaconamaidh Dùthchail agus Ceangailteachd, agus Fiona Hyslop BPA, Rùnaire a' Chaibineit airson Cultar, Turasachd, Spòrs agus Chùisean Taobh a-muigh.

Tha sinn air ceuman a ghabhail gus an dòigh-obrach againn a thaobh co-ionannachd, iomadachd agus in-ghabhaltachd a neartachadh thairis air an dà mhìos dheug mu dheireadh. Agus sinn a' tighinn nas fhaisg air suidheachaidhean reachdail ùra airson coilltearachd ann an Alba, rinn sinn farsaingeachd de dh'obair gus ar cur ann an suidheachadh nas fheàrr gus na dleastanasan a bhios oirnn a thaobh co-ionannachdan a choileanadh, a' gabhail a-steach a bhith ag àbhaisteachadh cùisean co-ionannachd agus a bhith a' cur an gnìomh dòigh-obrach ùr a thaobh measadh buaidh air co-ionannachdan. Tha sinn cuideachd air com-pàirteachas a stèidheachadh le Equate Alba gus tuigsinn nas fheàrr fhaighinn air an fharsaingeachd de cheuman taiceil as urrainn dhuinn gabhail gus cur ri iomadachd gnètheach an luchd-obrach againn.

**Tha sinn air tòrr a choileanadh sa bhliadhna mu dheireadh, a dh'aindeoin nan atharrachaidhean a tha a' tachairt sa bhuidhinn. Bu toil leam taing a thoirt dhan luchd-obrach air fad airson an cuid obair chruaidh tron bhuidhinn air fad gus buannachdan Oighreachd Nàiseanta nan Coilltean a libhrigeadh.**

Amanda Bryan  
Cathraiche Comataidh Nàiseanta na h-Alba

## Performance Report

The performance report provides information on performance over the year; the purpose and activities of the organisation; the main issues and risks that could affect delivery of objectives; and a performance summary.

### Overview

#### Statement by Interim Chief Executive

This year has been another year of change for Forest Enterprise Scotland as we move ever closer to becoming an executive agency of the Scottish Government.

We progressed the devolution of forestry and assisted Scottish Government colleagues in the drafting of the Forestry Bill and associated regulations. We have also continued to deliver on our plans for the creation of a new organisation, Forestry and Land Scotland. Throughout the year, work has taken place to review our organisational structures, focusing on changes within our Land Management and Community and Visitor Services functions. This will lead to an integrated regional structure that continues to build on connections between our national and local teams.

All of this work has taken place in addition to the day to day efforts that go on in relation to the practical management and delivery of benefits from Scotland's National Forest Estate.

We have continued to deliver against our corporate plan objectives and as you will see from this report, we have exceeded our woodland creation targets, continued to contribute to the Scottish Government's renewable energy targets and climate change plan and continued to tackle tree pests and diseases that threaten our forests and woodlands. Day visits and tourism continues to grow with over 10 million visitors to the National Forest Estate in 2017. All this whilst contending with some of the worst winter weather on record in early 2018.

It was a privilege to take on the role of Interim Chief Executive in April 2018 following Simon Hodge's departure. I know first-hand, in my role as Head of Land Management

over the period covered by this report, of the huge contribution by everyone in Forest Enterprise Scotland. I wish to thank everyone for embracing the challenges that we face with commitment, passion and professionalism. We have another busy year ahead of us in our final year as Forest Enterprise Scotland. The year ahead will enable us to celebrate our past achievements over the last 100 years and look forward to new exciting opportunities as a new agency of the Scottish Government.

## Purpose and Activities

### Who we are

Forest Enterprise Scotland (FES) was established as an Executive Agency of the Forestry Commission in April 2004. Forestry is a matter devolved to the Scottish Parliament, but the Forestry Commission currently is responsible for the management of forestry in Scotland, including forestry policy, incentives and regulation. Forestry Commission Scotland and FES also sit within the Scottish Government's Environment and Forestry Directorate.

FES is classed as a Public Corporation under the definition set by the Office of National Statistics (ONS). Its main task is to manage Scottish Ministers' National Forest Estate in accordance with their priorities and objectives.

The Forestry Commission is a UK Non-Ministerial Department headed by a Board of Commissioners established by Statute (the Forestry Act 1967 as amended) and, since devolution, the Forestry Commissioners have been designated as a cross-border public authority.

### Funding for Forest Enterprise Scotland's Work

The work of FES is funded by revenue receipts from the sale of timber and other income with a proportion of funding received from the Scottish Government for specific capital outcomes and delivery of specific social and environmental outputs. FES is involved in Spending Review discussions about Scottish Government funding and at the conclusion of each Spending Review sets a two year budget which is required to remain within an agreed Annual Subsidy Limit.

### Status and Duties of Forest Enterprise Scotland

**Scottish Ministers** decide the policy and financial framework within which the Forestry Commission (including FES), operates in Scotland and they are accountable to the Scottish Parliament for all matters concerning FES.

The **Forestry Commissioners** are statutorily responsible for the stewardship of the estate placed at their disposal by Ministers. The Forestry Commissioners have delegated

to the statutory National Committee for Scotland the normal exercise of their powers and duties in connection with the estate. The **National Committee** is chaired by a non-executive Forestry Commissioner and its members include a further non-executive Commissioner, the Executive Commissioner for Scotland and the FES Chief Executive.

The Chair of the National Committee for Scotland is responsible, on behalf of the Forestry Commissioners, for ensuring proper governance of FES. However, oversight by Scottish Government and operational management of FES, by agreement with National Committee Scotland, comes through the Scottish Government Director for Environment and Forestry. The Scottish Government Director for Environment and Forestry ensures that FES has the delegations and authorities necessary for effective delivery of Scottish Ministers' priorities.

The **Chief Executive** of Forest Enterprise Scotland is designated by the Principal Accountable Officer for the Scottish Administration, under section 15 of the Public Finance and Accountability (Scotland) Act 2000, as the Accountable Officer for Forest Enterprise Scotland.

The Accountable Officer is personally responsible to the Permanent Secretary of the Scottish Government and answerable to the Scottish Parliament for the propriety and regularity of FES's finances and for the economical, efficient and effective use of all associated resources provided to FES within the terms of the Framework Document and in pursuit of the agreed objectives and targets. The Accountable Officer is also responsible for signing the accounts of FES.

The FES Chief Executive is required to agree matters with the National Committee for Scotland where indicated in this Framework Document. The Chief Executive has a right of direct access to the Minister and is responsible for advising Ministers, the Scottish Government Director for Environment and Forestry and the National Committee for Scotland on FES's Corporate Plan and performance targets and for ensuring that FES operates a proper system of financial management.

In particular, the Chief Executive is responsible for:

- providing leadership on the management of Health and Safety in FES;
- preparing and maintaining FES's national and regional planning and reporting framework and for achieving the targets set in them;
- preparing FES's Annual Report and Accounts;
- organising FES's staff and other resources to achieve its aims and objectives;
- maintaining financial and management information systems to assist in the monitoring and control of performance;
- establishing and chairing the FES Management Board comprising senior managers within FES; and
- operating an effective complaints procedure.

The FES Chief Executive is liable to be summoned to appear before the relevant Parliamentary Committee to answer for their financial responsibilities. It will be for

Ministers to decide who should represent them at other Parliamentary Committee hearings. In practice, where a Committee's interest is confined to the day-to-day operations of FES, Ministers will normally regard the Chief Executive as the person best placed to appear on their behalf.

Ministers will encourage Members of the Scottish Parliament to communicate with the Chief Executive on matters relating to the day-to-day operations of FES. The Chief Executive will ensure that any matters on which it is proper for the Executive Commissioner for Scotland, Director for Environment and Forestry or the Minister to reply are referred to them without delay.

The Chief Executive will provide Ministers with any information necessary to answer Parliamentary Questions or to deal with any other Parliamentary business about operational matters for which FES is responsible.

## **Work on the Completion of Forestry Devolution**

Work continued on the completion of forestry devolution over the period 2017/18. The Cabinet Secretary for the Rural Economy and Connectivity introduced the Forestry and Land Management (Scotland) Bill on 10 May 2017. The Bill, as introduced, aimed to:

- Improve accountability, transparency and policy alignment by transferring the powers and duties of the Forestry Commissioners, in so far as they relate to Scotland, to Scottish Ministers;
- Create a modern legislative framework to support, develop and regulate forestry; and
- Ensure Ministers can manage their own forestry land with greater flexibility and enter into arrangements manage forestry and other land owned by other people or bodies.

The Bill was accompanied by a policy document which provided information on new organisational arrangements, cross-border collaboration and specific provisions within the Bill. This set out proposals for Forest Enterprise Scotland to become an Executive Agency of Scottish Government – Forestry and Land Scotland.

The Forestry and Land Management (Scotland) Act was given Royal Assent on 1<sup>st</sup> May 2018. The Act provides a modern legislative framework to develop, support and regulate forestry in Scotland, including a requirement for a Scottish forestry strategy and a duty to promote sustainable forest management. It is expected that the Act will be commenced in April 2019, which will mark the end of Forest Enterprise Scotland and the beginning of Forestry and Land Scotland. The day to day operations of Forest Enterprise Scotland will continue over 2018/19 against a backdrop of significant change as preparations continue to move to the new organisational arrangements.

## Our Priorities and Objectives

FES provides Scottish Ministers with a direct land management capability for delivering their Land Use Strategy, their Scottish Forestry Strategy and their other priorities.

While this is principally related to delivery of integrated land use and forestry outcomes through management of the National Forest Estate, Scottish Ministers may ask FES to deliver wider land management outcomes through partnership with other public landholders and on Scottish Ministers' wider land holdings.

The objective of FES is to maximise the contribution of the National Forest Estate to Scottish Government outcomes. The Scottish Government's 'Scotland Performs' framework defines 16 National Outcomes. The National Forest Estate can make a contribution to many of these, but particularly:

- We realise our full economic potential with more and better employment opportunities for our people.
- We reduce the local and global environmental impact of our consumption and production.
- We have strong, resilient and supportive communities where people take responsibility for their own actions and how they affect others.
- We live longer, healthier lives.
- We value and enjoy our built and natural environment and protect it and enhance it for future generations.
- Our public services are high quality, continually improving, efficient and responsive to local people's needs.

As part of a mix of state, public and private ownership, FES focuses on situations where other forms of intervention are not wholly effective or efficient at delivering public benefits. This will usually be where one or more of the following apply:

- For management of 'national treasures';
- Where co-ordinated action is needed on a nationally significant or landscape scale;
- Where action is needed rapidly, of a very specific nature or consistently over a long duration;
- Where public benefit delivery is difficult to secure from the private and third party sectors; or
- For providing exemplars of best practice, opportunities for research and expertise and leadership in land management.

The contribution of the National Forest Estate is captured in six objectives, (mapped here against the Scottish Government National Outcomes):

- **Productive** (economic potential), providing sustainable economic benefits from the land.
- **Healthy** (environmental impact), achieving good environmental and silvicultural condition in a changing climate.

# Forest Enterprise Scotland

An agency of the Forestry Commission managing Scotland's National Forest Estate

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- **Treasured** (communities) as a multi-purpose resource that sustains livelihoods, improves quality of life, and offers involvement and enjoyment.
- **Accessible** (healthier lives), local woodlands and national treasures that are well promoted, welcoming and open for all.
- **Cared for** (natural environment), working with nature and respecting landscapes, natural and cultural heritage.
- **Good value** (public services), exemplary, effective and efficient delivery of public benefits.

Scottish Ministers may vary these objectives.

## Our Values

Our values determine how we behave in fulfilling our objectives. They are:

### Teamwork

Working collaboratively with each other and stakeholders, ensuring that trees, woods and forests meet the needs of society.

### Professionalism

We enjoy and take pride in our work, acting with integrity and political impartiality to achieve high standards of health and safety, quality, efficiency and sustainability.

### Respect

We value each other and our stakeholders, recognising diverse perspectives and treating everyone with consideration.

### Communication

We are open, honest and objective with each other and our stakeholders. We are prepared to challenge and to be challenged.

### Learning

We are always learning, developing the skills, knowledge and behaviours to support organisational success.

### Creativity

We seek new ways of doing things, sharing ideas and embracing change.

## Key Issues and Risks

The key issues and risks that could affect the entity in delivering its objectives are seen as:

### Organisational Reform

Forest Enterprise Scotland has already embarked on a significant programme of structural change in response to Scottish Ministers' commitment to completing the devolution of forestry.

The establishment of the Business Services team is in its' final phase with all of the new teams expected to be in place by October 2019 with the completion of the work to transfer the FC's Shared Services scheduled to complete by the end of March 2019. The transition of Information Services into the new FES Digital Services team is the highest risk activity in terms of complexity and time and is scheduled to complete in the final quarter of the FY. The final phase of this transition work is the delivery of the new SG supplied Desktop Service and detailed planning with contingency being prepared to ensure independent capability from the Forestry Commission is achieved by the due date. The decommissioning of shared services is already underway and will complete in the first half of FY 2019/20.

The changes include the integration of Finance services into Scotland as well as Procurement, HR, L&D, and H&S. FES will now be responsible for delivering Business Services to FES and FCS which were previously provided by Forestry Commission Shared Services.

We are also undertaking internal structural changes for our Land Management and Community & Visitor Services functions. This will create an integrated regional structure for delivery and improve connections between national and local teams. The key risks with these changes relate to ensuring implementation before the new Agency commences and managing business as usual through the changes. The target date for creating the new regional structure is late autumn 2018 and plans are in place to achieve this. The existing level of staff resource is being maintained to support the change and ensure ongoing delivery during change.

There are risks relating to: the unknown cost of change; the difficulty in managing business as usual during a period of change; and the potential impact of change on staff engagement and retention.

FES is undergoing significant structural change and as such there has been a lot of collaborative working with FCTU throughout 2017/18 which will continue as the move to a Regional structure is implemented in Autumn 2018.

A new Workforce Planning approach was introduced in 2017/18 to enable more effective matching of priorities and our people resource. With an ageing workforce, succession planning and skills development is a key priority and the first FES Strategic Workforce Plan was published 1 April 2018.

## Impact of Brexit

The full impact of UK's exit from the EU on the forestry sector in Scotland is not yet fully known. The current impact on Forest Enterprise Scotland is principally through exchange rates and economic growth, both of which have remained favourable to domestic timber trading.

## Performance Summary

Below is summary information about the key performance and achievements of Forest Enterprise Scotland, based on its corporate commitments.

The corporate commitments are split into six themes with the key priorities being measured and monitored throughout the year. Our commitments and subsequent achievements for 2017/18 were as follows:

### Healthy – achieving good environmental and silvicultural condition in a changing climate

#### Commitments/Achievements:

- Tree pests and diseases remained a major threat to Scotland's National Forest Estate in financial year (FY) 17/18. Main threats continue as *Dothistroma* on pine, *Phytophthora ramorum* in Larch and *Dendroctonus micans* on Spruces.
  - *Dendroctonus micans* is spreading northwards (Falkirk being the most northerly location where it is known to be present) and the very successful biological control programme (using the predator beetle, *Rhizophagus grandis*) is important in protecting not only our large upland spruce forests but also the Pest Free Area status of west Scotland.
  - *Phytophthora ramorum* is a major fungus-like pathogen affecting larch, particularly in south west Scotland but with a number of locally significant outbreaks elsewhere. Early detection and rapid felling of affected crops, coupled with a subsequent change of species for the next rotation are key actions. This year, FES action, in addition to rapid felling of infected stands, has been to "bring forward" some larch felling in locations likely to become infected and also continue to plan and invest in forest road access to remote larch in the vulnerable zone.

- Dothistroma continues to affect mainly Lodgepole and Corsican pine and Scots pine to a lesser extent. FES carries out formal condition surveys on all pine at least once every three years and every year in Caledonian Pinewood areas. The survey provides information to inform mainly Lodgepole felling programmes to reduce the likelihood of spread.
- 17/18 saw a continuation of the active management of steep ground in the Great Glen with the first phase of tree felling operations above Loch Ness nearing completion. Partnership working between Transport Scotland and FES continues with both organisations jointly developing a risk based approach to future operational planning above the A82 alongside Loch Ness. The experience of delivering operations to mitigate the risks of land-slips and wind blow continues to grow with the knowledge gained being widely shared within FES and beyond.
- We worked in partnership with Transport Scotland to prepare a planting plan for the unstable hillside above the A83 at the Rest & be Thankful. This new native woodland will complement the hard engineering adjacent to the trunk road, with the rooting systems of the new trees helping stabilise the slope, as well as providing enhanced habitats and landscape improvements beside this main tourist route into Argyll.
- Considerable work has taken place to consolidate our programme of rhododendron control. This includes undertaking follow-up control over large areas and carrying out initial clearance over 413 hectares, some of which was difficult roped access. Expenditure on rhododendron control in 2017/18 has exceeded £900,000.

## Productive – providing sustainable economic benefits from the land

### Commitments/Achievements:

- The provision of a consistent supply of timber continues to be a focus. In FY 17/18 we brought 3229.5 m<sup>3</sup> obs of timber to market.
- We also want to ensure we are sustaining the Estate's timber producing capacity long into the future by planting an appropriate mix of trees. Balancing this need with environmental, landscape and other objectives is complex and we have continued to develop our Geographical Information System (GIS) tools to help us get the 'right tree in the right place'.
- In FY 17/18 we undertook 4,920 ha of restocking. The severe and prolonged winter weather this year prevented FES teams from fully delivering the restocking programme. Delivered programme was 1,218 hectares under the planned target programme of 6,138 hectares for the year. We will carry forward this programme into 18/19.
- FES continues to support the Government's aspirations to supply 100% of Scotland's electricity consumption from renewable sources by 2020. At the end of the financial year FES had over 1GW of operational renewable capacity on the

National Forest Estate, made up from 62 hydro-electric schemes and 19 wind farms. Two further windfarms and 3 hydro schemes for rent are expected to become fully operational over 2018/19 contributing further to the Scottish Government(SG) targets. The wind element is approximately 20% of Scotland's operational on-shore wind capacity; generating a quarter of all community benefit payments; producing enough energy for over half a million households; and displacing about 1 million tonnes of CO2 each year. Over the next financial year we will continue to increase this capacity.

- In FY 17/18 we created 735 hectares of new woodland on the estate, as part of our commitment to the Scottish Government's woodland creation targets.
- Awareness of the role of the Estate in Scottish Tourism continues to grow with day visits and tourism contributing to a healthier Scotland and developing the rural economy. In 2017 we had over 10 million visitors to the National Forest Estate (NFE), an increase of 12% over the last four years. Planning consents were granted for a further 56 cabins at the Glentress Forest Holidays development in March 2018.
- During the spring we advertised 468 hectares of agricultural land in 28 separate parcels. We received a total of 42 tenders and have now concluded 20 agreements (Short Limited Duration Tenancies) of which 16 have gone to new entrants to agriculture. This is an excellent outcome not only in terms of pro-active estate management, but also as a significant contribution towards the objectives of the Scottish Government Farming Opportunities for New Entrants (FONE) initiative.

## **Treasured – as a multi-purpose resource that sustains livelihoods, improves quality of life and offers involvement and enjoyment**

### **Commitments/Achievements:**

- The first Community Asset Transfer was approved with the sale of land at Glen Brittle to allow the construction of an extended car park to relieve traffic congestion arising from visitors viewing the Fairy Pools. Since the launch, the organisation has engaged with more than thirty communities interested in purchasing or leasing part of Scotland's National Forest Estate through the scheme.
- Our community work has continued to include the provision of opportunities for development of community renewables on the Estate, which has great potential to empower local communities and provide long-term resource flows to support other community-led projects. Six such community renewable developments have been taken forward by the end of FY 17/18.
- Our community engagement programme continues to deliver benefits to diverse groups. Our Woodland Activity Programme involves providing woodland activities

to people with early stage dementia to help promote and enhance wellbeing, sensory stimulation, social development and nature connectedness.

## **Accessible – local woodlands and national treasures that are well promoted, welcoming and open for all**

### **Commitments/Achievements:**

- The health and safety of visitors to Scotland's National Forest Estate is paramount. We continue to work with the Visitor Safety in the Countryside Group, outdoor access organisations and event organisers to promote safe use of the National Forest Estate. Over the past year we have engaged in a project with various stakeholders and organisations to raise the understanding and appropriate management of third party agreements. We are continuing to work with our staff and contractors to improve the way work sites are signed, and to provide practical alternative routes around dangerous operations. Work on the effective management of "Wild trail" building in partnership with the National Access Forum, Scottish Land & Estates, Confor, mountain bikers and other stakeholders continues.
- Improving and promoting the accessibility of our key visitor centres and sites has been a priority over the 17/18 period. Working with the organisation Disabled Go we have developed and published detailed access guides for 14 of our busiest visitor sites including Cuningar Loop, Kirroughtree and Glenmore Visitor sites. New 'all-abilities' trails have been opened in Bennachie and Foggieton Woods to allow wider access to the benefits of our forests and woodlands.
- Our Woods In and Around Towns (WIAT) programme has been a great success, most recently with a focus on the East-end of Glasgow in association with the Commonwealth Games. Cuningar Loop Woodland Park was officially opened by the Transport Minister, Humza Yousaf MSP in August 2017. The official opening marked the completion of six years of work transforming an abandoned landfill site on the River Clyde into an active 'woodland retreat' that is expected to welcome 120,000 visitors per year.
- Information on the major archaeology project at Glen Nevis has now been published. Dun Deardail – Derdriu's Fort – sits high above Glen Nevis and was built around 2500 years ago, and was eventually destroyed in a fire. Recent archaeological excavation has shed light on the construction, occupation and destruction of the hillfort. The project was part of the ambitious Nevis Landscape Partnership and enabled path repair on Ben Nevis.

## Cared for – working with nature and respecting landscapes, natural and cultural heritage

### Commitments/Achievements:

- We have continued to plan and subsequently implement the significant expansion of the area of broadleaved woodland on Scotland's National Forest Estate to create functioning habitat networks, but in a way that is complementary to our commitment to sustain the productive potential of the Estate. This in part has meant the development of our approach to productive broadleaved woodland, in places where management is feasible and environmentally appropriate. Taking advantage of all opportunities to create broadleaved woodlands in areas of less potential for productive conifer crops. In FY 17/18 the area of broadleaved woodland in productive management on Scotland's National Forest Estate increased by 532 hectares to 8678 hectares.
- We are committed to sustaining, and where appropriate, restoring high priority habitats. Our biggest programme in FY 17/18 related to the removal of non-native trees from ancient woodland sites and we are exploring how we best do this with ecological integrity, but also avoiding health and safety issues (for example associated with standing dead trees) and achieving operational efficiency. At the end of FY 17/18 we have restored 61.8% of the Planted Ancient Woodlands Sites (PAWS) on Scotland's National Forest Estate.
- We continued our programme of managing and restoring open habitats like lowland raised mires and coastal dunes. With stakeholders we are seeking an appropriate balance between restoring open habitats and woodland removal by focusing on sites with the highest ecological potential.

## Good value – exemplary, effective and efficient delivery of public benefits

### Commitments/Achievements:

- Over the 17/18 period we have driven forward the development of a portfolio approach. We now have an agreed portfolio of around 30 projects which are prioritised against organisational and Scottish Government priorities. This ensures projects and investment are prioritised to key deliverables and KPIs. The Portfolio is reviewed every month by the Management Board where members monitor delivery of projects as well as approval of new initiatives.
- We have continued to embed our new approach to land management planning, which sees wider and earlier involvement of the delivery teams in the planning process to ensure that we develop cost-effective strategic solutions to complex land use challenges. This approach is leading to measurable improvements in the efficiency of our roading and harvesting programmes in some areas, and is

allowing us to build environmental improvements – such as flood risk mitigation – into the core of the plan.

- We have taken steps to strengthen our approach to equality, diversity and inclusion over the past 12 months. We recognise that our current workforce is not reflective of the population of Scotland and so we are working with organisations to better understand the range of positive action measures that we can take to help increase the gender and ethnic diversity of our workforce. We have also been proactive in trying to dispel some of the myths surrounding forestry, including working with schools and careers services to promote the forestry sector as a career option for more girls and women and to our young, developing workforce in Scotland.
- In April 2017 we established a Learning and Development Service for the organisation. Since then the team has organised over 2000 instances of training for employees; developed and launched a new Managers Training Academy to support and further develop the capability of FES managers; and developed an interim Learning and Development Strategy.

## Performance Analysis

Forest Enterprise Scotland incurred net income of £50.1m (2016/17 net operating expenditure of £15.5m). This significant increase is largely attributable to gains recognised during the quinquennial professional revaluation of the Biological Assets. 2017/18 saw a full revaluation exercise carried out by external professional valuers.

Operating income was £84.5m which is an increase of £2.2m over the prior year (2016/17 £82.3m)

Income from the sale of timber was £67.9m, an increase of £2.5m from 2016/17 (£65.4m). 2017/18 saw an unprecedented increase in timber revenue as a result of the highest prices achieved since electronic archived records began in 1995. The high prices were further affected by supply side shortages and high demand for all timber products.

The increase in timber income of £3.1m was offset by a decrease of £0.6m in timber crop compensation, paid to Forest Enterprise Scotland in relation to windfarm development. Only 11 out of 14 proposed schemes were completed resulting in a reduction in anticipated income.

Management Services income reduced by £1.4m as a result of one off funding received in 16/17 for the costs of change including IT infrastructure. The related costs of which have partially being incurred during 2017/18.

Operating expenditure was £118.0m which is an increase of £3.5m (2016/17 £114.5m).

Management and Development of Estate costs increased by £4.4m, due to one off costs relating to legal liabilities and premature retirement costs.

Increased Environment expenditure of £2.4m largely relates to the Peatlands Project.

After adjusting the total net expenditure for the items not involving the movement of cash and for capital expenditure and receipts, the net cash funding received from Forestry Commission Scotland was £22.6m of which £20.7m related to ASL (2016/17 £21.7m) and £1.9m related to Peatlands funding.

## Key Performance Indicators

The Key Agency Targets set by the Forestry Commission National Committee for Scotland in 2017/18 for Forest Enterprise Scotland to manage, and the actual outturns, are displayed in the following table:

Corporate Plan Objective	FES Key Performance Indicator (KPI)	Target	Actual	Target Met
Healthy	Area of Land Awaiting Restocking	31,915 ha	33,064 ha	No
Productive	Volume of Timber Brought to the Market	3276.7km <sup>3</sup> obs +/- 5%	3229.5 km <sup>3</sup> obs	Yes
Productive	Area of Woodland Creation	650 ha	735 ha	Yes
Treasured	Value of Community Benefit Payments from Renewables	£3.0 million	£2.7 million	No
Treasured	Number of areas leased, management agreements or Partnership Working with Communities	60	36	No
Cared For	Area of Native Woodland	49,888 ha	50,528 ha	Yes
Cared For	Percentage of Notified Features on Designated sites in favourable (or unfavourable) Recovering Condition	94%	92.1%	No

KPIs are monitored on a regular basis to ensure that targets are being met, failure to meet targets results in a review of performance and the target.

## Business Sustainability

Forest Enterprise 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.

Our Annual Sustainability Report for 2017/18 will be available on our website in due course at [scotland.forestry.gov.uk](http://scotland.forestry.gov.uk).

## Social Matters

FES has well developed policies and procedures to address a wide variety of areas covering human rights, in particular anti-corruption and anti-bribery, modern slavery, equality diversity and inclusion, and Whistleblowing. More information can be found in the Remuneration and Staff Report and Governance Statement in these accounts.

Staff are required at all times to act honestly, with integrity, and to safeguard the public resources for which they are responsible for. They are also encouraged to raise concerns about improprieties in the conduct of FES's business whether in matters of financial regulatory or other malpractices including fraud, bribery. This is designed to support our values and ensure staff can raise concerns without fear of suffering retribution ensuring there is a transparent and confidential process for dealing with concerns.

## Health and Safety

### Policy

It is the policy of Forestry Enterprise 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). The Accord 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. Forest Enterprise Scotland is a signatory to the Accord.

The Forest Enterprise Scotland Health and Safety Committee has a remit to assist Forest Enterprise Scotland (and Forestry Commission Scotland) management boards and Health and Safety team in raising awareness, promoting, achieving and sustaining a culture of positive health and safety attitudes and behaviour. The aim is for all staff to understand the importance of health and safety and to look out for themselves and others. The committee provides a focus for joint participation between its management boards, staff, and trade union safety representatives.

### Activity

The Forestry Commission's Health and Safety Strategy was launched in 2013 which set out the priorities to enhance our safety culture. We have used the results of the Safety Climate Tool survey to develop action plans and to continue our work in improving our health and safety culture.

On 1 April 2016 we established a dedicated health and safety team within Forest Enterprise Scotland, as part of the internal devolution of shared services. An initial focus has been on incident reporting, investigation, learning and communication.

Forest Enterprise Scotland also established a Health, Safety and Wellbeing Programme as one of five priority change programmes.

This programme aims to build upon the good work already underway to reduce accidents and provide a healthy environment. Our vision is to create an excellent health, safety and welfare culture within FES to:

- eliminate work accidents for those working on the National Forest Estate,
- sustain a healthy working environment that supports physical and mental health;
- significantly reduce member of the public accidents resulting from recreational use of the Estate;

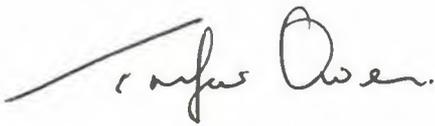
- promoting healthier lifestyles and therefore making a positive impact on the general health of the workforce; and
- Promulgate a strong health, safety and welfare culture amongst those we work with.

## Accidents

The number of Reporting of Injuries Diseases Dangerous Occurrence Regulations (RIDDOR) reportable incidents (over 7 days and specific reportable injuries) in 2017/18 was 6. The following table summarises this information:

Year	Ave number Employees	RIDDOR Reportable Accidents
2017/18	869	6
2016/17	798	6

In addition, there were 4 RIDDOR reports relating to occupational illnesses (Lyme or similar tick borne disease) submitted to the Health and Safety Executive (HSE).



Trefor Owen

Interim Accountable Officer  
6 August 2018

## Accountability Report

The purpose of the accountability report is to meet key accountability requirements of the HM Treasury's Financial Reporting Manual for 2017/18. This report has three sections:

- 1) a Corporate Governance Report (pages 25 to 42);
- 2) a Remuneration and Staff Report (pages 43 to 56); and
- 3) a Parliamentary Accountability and Audit Report (page 57).

### Corporate Governance Report

The Corporate Governance Report describes Forest Enterprise Scotland's governance structures and how they achieve the business objectives. It comprises the Directors' Report, the Statement of Accountable Officer's responsibilities, and the Governance Statement. This meets accountability requirements as specified in HM Treasury's Financial Reporting Manual.

### Directors' Report

#### Relationship with Scottish Government and the wider Rural Affairs network

Ministers who had responsibility for FES during the reporting year were:

- Fergus Ewing MSP (Cabinet Secretary for the Rural Economy and Connectivity) and;
- Roseanna Cunningham MSP (Cabinet Secretary for the Environment, Climate Change, and Land Reform).

Although Mr Ewing has the lead for forestry, the work that we do continues to contribute to Ms Cunningham's portfolio, as well as those of other Cabinet Secretaries.

The Scottish Government's Director of Environment and Forestry, Bridget Campbell, is responsible for farming and environment, rural economy and climate change.

#### Chair and Chief Executive

The chair of NCS is Amanda Bryan. Trefor Owen is the interim Chief Executive of FES.

#### Composition of the FES Management Board

The composition of the various governance fora, their structure, and activities are set out in full within the Governance Statement.

The members of the FES Management Board during the year were:

- Simon Hodge, Chief Executive of Forest Enterprise Scotland
- Trefor Owen, Head of Land Management
- Michael Ansell, Head of Estate Development
- Alan Stevenson, Head of Communities & Visitor Services
- Brent Meakin, Head of Business Services
- Michael Hymers, Head of Corporate Services
- Donna Mortimer, Head of Finance & Procurement
- Rosetta Forbes, Head of HR Scotland
- Nicol Sinclair, Head of Business Services (Acting)

## Register of interests

A register of interests of all Board and Committee Members is maintained by the Forestry Commission and published on our website, [www.forestry.gov.uk](http://www.forestry.gov.uk).

## Other Disclosures

## Personal Data Related Incidents

There was one personal data related incidents reported for FES in 2017-18.

## 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 2017/18 indicates that 94.9% 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.

## Estate Management Strategies

Forest Enterprise Scotland maintains awareness 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 energy schemes, in ways that help achieve the Scottish Government's renewable energy policy whilst safeguarding the aims of the Scottish Forestry Strategy. By doing so Forest Enterprise Scotland aims to contribute to achieving Scotland's renewable energy targets, to secure 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 the 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 Forest Enterprise Scotland guidance on 'Management of Development Opportunities'.

The purpose of this guidance is to ensure that Forest Enterprise Scotland prioritises resources, contributes towards its Corporate Plan as well as other Scottish Government priorities, whilst engaging with communities, local planning authorities and other stakeholders.

## Basis of Accounts

The Forest Enterprise 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.

## Auditors

Mark Taylor (Audit Scotland) is appointed under the Public Finance and Accountability (Scotland) Act 2000 to carry out the external audit of for FES. No fees were charged for other services.

## Statement of Accountable Officer's Responsibilities

Under the Forestry Act 1967, Forestry Enterprise 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 organisation, the income and expenditure, 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.

The Accountable Officer is required to confirm that the annual report and accounts as a whole is fair, balanced and understandable and that they take personal responsibility for the annual report and accounts and the judgements required for determining that it is fair, balanced and understandable.

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.

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.

## Governance Statement

### Scope of Responsibility

As the Accountable Officer at the date of signing this report, I am personally accountable to the Scottish Parliament for the proper management of public funds and for ensuring these resources are used efficiently, economically and effectively. I was appointed on the 11<sup>th</sup> April 2018 and following my appointment I received an appropriate handover from the outgoing Chief Executive to enable me to sign these accounts.

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.

I believe that FES fully complies with the principles of Scottish Public Finance Manual.

### The Purpose of the Governance Framework

The governance framework comprises the systems and processes, culture and values, by which Forest Enterprise Scotland is directed, controlled and led. It enables Forest Enterprise 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 Forest Enterprise 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.

Scottish Ministers decide the policy and financial framework within which the Forestry Commission, (including Forest Enterprise Scotland) operates and they are accountable to the Scottish Parliament, alongside the Agency Accountable Officer for all matters concerning FES. Forest Enterprise Scotland's mandate is laid out in an Agency Framework Document, which is agreed by the Cabinet Secretary for the Rural Economy and Connectivity.

The governance framework has been in place at Forest Enterprise Scotland for the year ended 31 March 2018 and up to the date of approval of the annual report and accounts, and accords with Scottish Public Finance Manual Guidance.

## Board of Commissioners

The Board of Commissioners' responsibilities include:

- overseeing changes to the role and governance structure of the Forestry Commission;
- delegating to the Scotland National Committee such functions as are required to support the National Committee's role in ensuring that the Ministers' policies are delivered efficiently and effectively;
- maintaining an overview of corporate risk; and,
- oversight of the Forestry Commission Central Services (for the current reporting period, Central Services comprise Human Resources; Finance and Accounting Services; Information Systems; Corporate and Forestry Support; and Forest Research Agency).

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 10 February 2014.

Amanda Bryan and George McRobbie along with Jo O'Hara, Head of Forestry Commission Scotland, served as Forestry Commissioners for Scotland during 2017/18.

The Board of Commissioners met in June, September and December 2017, and March 2018.

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](http://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 National Committee for Scotland the normal exercise of their powers and duties in connection with the estate in Scotland. A non-executive Forestry Commissioner chairs the National Committee. The National Committee maintains contact with five Regional Forestry Fora who advise on forestry policy and practice in their area.

The National Committee members comprise the Head of Forestry Commission Scotland; the Chief Executive of Forest Enterprise Scotland; the Head of Forestry Commission Scotland Corporate Services and five non-executive members.

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;
- oversight and advice on 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: and
- 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 met on six occasions (i.e. four Governance themed meetings and two Strategic meetings) and discussed a wide range of topics. The key issues discussed included the future of forestry in Scotland, legislative proposals, organisational change programmes and Cross Border arrangements.

At each of the four Governance meetings the National Committee also discussed the Forest Enterprise Scotland's Chief Executive's update report. Papers for these meetings, including other issues discussed and further information on the National Committee, are available on our website, [www.forestry.gov.uk](http://www.forestry.gov.uk).

Members of the National Committee who served during the year and their attendance at meetings were as follows:

Member	Apr 2017	Jun 2017	Aug 2017	Sept 2017	Nov 2017	Feb 2018
<b>Amanda Bryan</b> , Non-executive Forestry Commissioner & National Committee Chair	✓	✓	✓	✓	✓	✓
<b>George McRobbie</b> , Non-executive Forestry Commissioner	✓	x	✓	✓	✓	n/a
<b>Henry Graham</b> , Non-executive member	✓	✓	✓	✓	✓	✓
<b>Jon Hollingdale</b> , Non-executive member	✓	✓	✓	✓	✓	✓
<b>David Gould</b> , Non-executive member	✓	✓	✓	✓	✓	✓
<b>Jo O'Hara</b> , Head of FCS & Forestry Commissioner	✓	✓	✓	✓	✓	✓
<b>Simon Hodge</b> , Chief Executive, FES	✓	✓	✓	✓	✓	✓

# Forest Enterprise Scotland

An agency of the Forestry Commission managing Scotland's National Forest Estate

<b>Nicky Whitaker</b> , Head of FCS Corporate Services	✓	✓	✓	✓	x	✓
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Due to a conflict of interest, George McRobbie on 1 January 2018, ceased to serve as a Non-executive member of NCS.

## Scottish Executive Board (SEB)

The Board comprises senior officers from Forestry Commission Scotland and Forest Enterprise Scotland who consider issues common to both Forestry Commission Scotland and Forest Enterprise Scotland.

During the year the Board met on six occasions and discussed a wide range of topics. The key issues discussed included the future of Forestry in Scotland, Equality & Diversity Strategy, and the Forestry Devolution Programme. The associated risks of change were discussed as well as ensuring ongoing business requirements are being met effectively.

Further information on the Scotland Executive Board and further issues discussed is available on our website, [www.forestry.gov.uk](http://www.forestry.gov.uk).

Member	Apr 2017	June 2017	Aug 2017	Oct 2017	Nov 2017	Feb 2018
<b>Jo O'Hara</b> , Head of Forestry Commission Scotland & Forestry Commissioner	✓	✓	✓	✓	✓	✓
<b>Simon Hodge</b> , Chief Executive, Forest Enterprise Scotland	✓	✓	✓	✓	X	✓
<b>Nicky Whitaker</b> , Head of FCS Corporate Services	✓	✓	✓	✓	✓	✓
<b>Michael Hymers</b> , Head of Corporate Support, Forest Enterprise Scotland	✓	✓	✓	✓	✓	✓
<b>Rosetta Forbes</b> , Head of HR Scotland	✓	✓	✓	✓	✓	✓

## 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. The ARC works across both Forestry Commission Scotland and Forest Enterprise Scotland. Forest Enterprise Scotland maintains its 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 who served during the year and their attendance was:

Member	July 2017	Nov 2017	Feb 2018
<b>George McRobbie</b> , Non-executive Forestry Commissioner and Chair	✓	✓	N/A
<b>Henry Graham</b> , Non-executive member and Chair from Feb 2018	✓	✓	✓
<b>David Gould</b> , Non-executive member	✓	✓	✓
<b>Jon Hollingdale</b> , Non-executive member	N/A	N/A	✓

Due to a conflict of interest, George McRobbie on 1 January 2018, ceased to serve as a Non-executive member of NCS and Chair of the ARC. Henry Graham became Chair at the February meeting, and Jon Hollingdale was appointed onto the committee.

During the year the Committee discussed a wide range of issues including, but not limited to:

- annual report and accounts 2016-17;
- external and internal audit strategy and reports;
- information security and data handling;
- review of risk registers;
- devolution of forestry;
- national fraud initiative;
- health & safety;
- organisational change process and governance;
- compliance with general data protection regulations
- internal audit recommendations on finance support visits, procurement & contract management;
- forestry grant scheme;
- grant disallowances; and

- woodland creation.

## Forest Enterprise Scotland Management Board (FESMB)

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 National Committee for Scotland.

The members of the FESMB who served during the year and their attendance was:

Member	Apr 2017	May 2017	Jun 2017	Jul 2017	Aug 2017	Sep 2017	Oct 2017	Nov 2017	Dec 2017	Jan 2018	Feb 2018	Mar 2018
<b>Simon Hodge</b> , Chief Executive	✓	x	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
<b>Trefor Owen</b> , Head of Land Management	✓	✓	✓	✓	x	x	✓	✓	✓	✓	✓	✓
<b>Michael Ansell</b> , Head of Estates Development	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
<b>Alan Stevenson</b> , Head of Community & Visitor Services	✓	✓	x	✓	✓	✓	✓	✓	✓	✓	✓	✓
<b>Michael Hymers</b> , Head of Corporate Support	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
<b>Brent Meakin</b> , Head of Business Services	x	x	x	x	x	x	x	x	x	x	x	x
<b>Nicol Sinclair</b> , Acting Head of Business Services	x	✓	✓	✓	✓	✓	x	✓	✓	✓	✓	✓
<b>Donna Mortimer</b> , Head of Finance & Procurement	✓	✓	✓	✓	✓	x	✓	✓	✓	✓	✓	x
<b>Rosetta Forbes</b> , Head of HR Scotland	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓

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

- personnel policies and practice;
- financial management and efficiency;
- Agency Corporate Plan;
- Tax and VAT;
- spending review;
- organisational change;
- business sustainability;
- restocking;
- tree health and biosecurity; and
- Acquisitions and disposals within the National Forest Estate.

Further information on the Management Board and board minutes are available on the website, [www.forestry.gov.uk](http://www.forestry.gov.uk).

## Performance

All of the Committees and Boards 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 in 2015, with a substantial assurance opinion being given. The review included seeking feedback from members on the structure and functioning of the Board and Committee and responses received were positive. Five recommendations relating to procedural improvements were accepted and implemented.

An effectiveness review of the ARC was undertaken by current members during 2016. Responses were received in March 2016 and the results were presented to the ARC later in July 2016. There were two areas requiring follow up under the headings of Administration and Internal Audit, which have been resolved.

No further performance reviews under existing structures are planned whilst Forestry Enterprise Scotland undergoes transition into an Executive Agency.

## Risk Management

Forest Enterprise 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 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.

Risk management is integrated within the organisation by including risk management responsibilities within Forward Job Plans which are updated on an annual basis. Staff are therefore included in the risk process and are encouraged to report into managers and senior risk officers helping to identify and manage risks within the organisation. These risks are fed into the FESMB and are used in formulating functional risk registers and an Agency risk register, which are discussed and reviewed periodically.

Risk management continues to embed within the organisation and I consider the arrangements to be effective.

The ARC, as part of its support for the National Committee for Scotland, has continued its approach to risk management whereby Forest Enterprise Scotland Management are required to report on the 'Top' current and emerging risks facing the organisation. These will then be examined further where appropriate to ensure sufficient controls are in place and mitigating action has been taken. 'Top' risks reported during 2017-18 have included health and safety, complexity and pace of change, financial sustainability and regulatory compliance.

Full corporate risk registers are made available at the ARC meetings for scrutiny by members.

## 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, the 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). This role has transferred to the Forestry Commission's Data Protection Officer, who sits within FC England. The ISMF co-ordinates and controls the implementation of information security across the Forestry Commission. It met on 3 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 FE Scotland SIRO, or nominated deputy, attends the ISMF and provides a direct link on information assurance matters between the ISMF and the FESMB. 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-executives. 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. All staff training has been rolled out for 2018; the training module includes a specific section on the new General Data Protection Regulation (GDPR).

We have a reporting system to capture all security incidents, which are investigated in accordance with Cabinet Office and Information Commissioner's guidance. There has been one reportable personal data related incident during the year which is further explained below.

## **Preparations for the implementation of the General Data Protection Regulation**

The GDPR comes into force across Europe on 25 May 2018 and gives enhanced rights to people concerning their personal data. The GDPR empowers individuals to take control of their data: this applies to everyone - our staff, our customers, and our partners. It is the biggest change to data protection law in decades and builds on and strengthens existing rights to protect the personal data of UK citizens.

## **Electronic Pay-slips**

During 2017-18 Forestry Commission Central Services have been working towards all staff receiving their payslip electronically from April 2018.

There was one reported data loss incident where the physical payslips went missing in transit between the payroll provider and Forestry Commission. This loss was reported to the Information Commissioner as a data protection breach.

## Review of Effectiveness

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

- the executive managers within Forest Enterprise Scotland who have responsibility for the development and maintenance of the governance framework;
- the work of the internal auditors, whose reports to the Audit and Risk Committee 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;
- comments made by the external auditors in their management letters and other reports;
- feedback and commentary from non-executive members through ARC meetings; and
- feedback and commentary from National Committee members through regular meetings.

In March 2018 FES implemented a full Annual Assurance Framework that flows down from the Accountable Officer to Functional leads and from them to every cost centre manager. As this is the first year we aim to build upon this with a support network and a more comprehensive assurance framework in future years. This will be done with the input of internal audit.

I receive an Annual Assurance Statement from the Director of Central Services for the Forestry Commission, cost centre managers, and Heads of Functions. This provides me with assurance on the standard of governance and control within their area of responsibility. I also receive assurances from my management team through their regular submission of reports and presentations to the Management Board which is chaired by myself or my nominee and through my line management responsibilities.

On the basis of these assurances I can confirm that sound systems of governance, risk management and internal control, consistent with the requirements of the Scottish Public Finance Manual (SPFM), have operated for the year ended 31 March 2018 and up to the date of approval of the Annual Report and Accounts.

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 was asked to participate in this exercise for the second time in October 2016.

Only 0.4% of the records across both organisations reviewed were recommended for further investigation. The majority of records investigated uncovered no significant weaknesses or issues, however a small number of duplicate records were identified within creditor accounts and in two cases payments made to suppliers in error. Successful action was subsequently taken to recover overpayments for approximately £16k.

Invoice authorisation procedures are currently in place to reduce the risk of this type of error. FES finance team also continues to review and support staff in ensuring these are being followed.

Scottish Government Internal Audit Directorate reviews specific areas within FES as identified and agreed in the Annual Audit Plan. After reviews have been undertaken reports are submitted which provide an assurance rating to me as Interim Chief Executive of Forest Enterprise Scotland and Accountable Officer. The report includes an overall assessment of the adequacy and effectiveness of risk management, control, and governance within the areas reviewed.

Internal Audit in their annual report provide a limited assurance report based on their findings during the year.

During 2017-18, a review was undertaken on three areas of the business, Finance, Procurement and Contract Management and an Insufficient Assurance opinion was given. Management have agreed to implement measures, which aim to satisfy the key recommendations suggested by Internal Audit. It is however recognised that these are long term and transformational.

Weaknesses in governance as identified through the newly introduced assurance process have been reviewed and assessed. Where necessary immediate concerns were addressed however a forthcoming programme of improvement is planned and this will be developed with the assistance of internal audit. Many of our plans are transformational and will be reviewed as part of the transition to Forest & Land Scotland Agency.

Audit Scotland prepared an Annual Audit Report in July 2017 as part of their review of the Annual Report and Accounts. Three matters/recommendations were raised and have either been addressed by management or actions have been put in place to address these.

As part of their 2017/18 programme of work, Audit Scotland tested a range of key controls within the main financial systems. No significant control weaknesses were identified. Actions to address matters raised are being taken during 2018-19.

## Whistleblowing

Forest Enterprise Scotland is committed to ensuring a high standard of conduct in all that it does and has a duty to identify and remedy any area of malpractice. This is achieved through encouraging a culture of openness, where employees feel confident to raise concerns about potential wrongdoing. This positive approach to whistleblowing is aligned to our organisation's values. For example, communication (we are open, honest and objective with each other and our stakeholders).

Director Central Services has overall responsibility for whistleblowing policy and practice and works with the Chief Executive of Forest Enterprise Scotland to ensure its

effectiveness. All whistleblowing cases are investigated thoroughly ensuring that lessons learnt and recommendations are embedded into how we operate as an organisation. In the past, cases were managed centrally by the Head of Internal Audit. In April 2017, Internal Audit was devolved to the countries. Mechanisms have been established through our policy whereby all cases for Scotland are now managed through our nominated officer. There were no cases reported under the Whistleblowing Policy in 2017-18.

The Whistleblowing Policy is reviewed regularly and was last updated in May 2015 to take account of the changes made by Civil Service Employee Policy to reflect the Public Accounts Committee recommendations.

## Changes to Internal Audit

### Internal Audit Services

From 2017-18 our internal audit changed from an in-house function to a service provided by the Scottish Government Internal Audit Directorate (SGIAD). In addition to reviewing Governance & Controls within FES, they are also active in supporting the projects for new organisational arrangements. This has helped in establishing a positive working relationship and management have quickly been able to form a view that the new arrangements are working effectively.

## Significant Governance & Risk Issues

Please see the key issues and risks to delivery set out in the Overview section of the Performance Report.

Other key governance and risk issues are:

### Information Communication Technology (ICT) infrastructure

The ICT Infrastructure modernisation programme has been suspended except where work is required to meet compliance with legislation or Her Majesty's Government (HMG) requirements. With the active transition of services from the centre to the countries and Forest Research, FES will be creating its own services and will introduce the appropriate policies and procedures to meet legislation and Scottish Government requirements. The central services will be wound down with the targeted closure date of March 2019.

The FC is actively working to disconnect from the Public Services Network (PSN) by the end of March 2019 as part of the devolution of Forestry.

Further work has been carried out over the year, specifically:-

- Windows XP replacement has been completed and any remaining systems have been blocked from using email or Internet access to mitigate the risk of old unpatched operating systems as per the National Cyber Security Centre (NCSC) guidance.
- Replacement of unsupported Windows 2000 & Windows 2003 servers in local offices will be completed prior to transition to the new organisations.
- The FC Exchange email service has been upgraded to maintain a supported service.

We have begun the introduction of Android Smartphones to provide continuity of service during the transition period.

## Project and Programme Management

In order to better support the governance structure during this period of significant change, I have introduced more formal Project and Programme Management (PPM) procedures and taken on additional specialist resource in this subject. The PPM approach allows greater transparency of individual pieces of work, improves the management of dependencies and ensures careful risk management and escalation.

## Structure of Forest Enterprise Scotland

The de-centralisation of shared services has almost completed with the integration of Finance services into Scotland. FES has taken on Credit Management and Tax responsibilities within its Finance Team structure. In addition, Forest Enterprise Scotland will now be responsible for other Shared Finance Services previously provided by FC GB. Projects for the establishment of a new agency structure have now commenced with delivery beginning in 2018-19.

## Tax

We have agreed with HMRC a number of improvements in VAT identification and recovery processes. In addition as part of the devolution process FES will now be responsible for its own systems and processes set up to meet tax compliance requirements. The Head of Finance & Procurement for FES has now been appointed as the tax liaison officer within FES, who will be responsible for HMRC compliance and reporting.

## Plans for 2018/19

We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements for this final year as FES.

The Royal Assent of The Forestry and Land Management (Scotland) Act has triggered a significant programme of work to prepare for the implementation of new organisational and legislative arrangements.

We will be working to establish and transition to a new executive agency for the effective delivery of Scottish Forestry objectives.

Plans to address weaknesses and major risks and to ensure continuous improvement of the business are in place. Requiring particular attention during 2018/19 will be:

- continued improvement of tax compliance and guidance;
- monitoring, detecting and dealing with harmful pests and pathogens;
- developing a position for anticipated spending review; and
- ensuring business continuity at change over from FES to Forestry and Land Scotland (FLS).

Forest Enterprise Scotland is working to prepare for the GDPR including:

- The Forestry Commission has put in place a revised Data Protection Policy. The policy outlines how we meet our obligations under the GDPR and data protection law, and describes the steps and actions staff must take to ensure that personal data is properly safeguarded and managed in accordance with the GDPR. Information Services (part of FC Shared Services) have updated a suite of policy documents that will help compliance with the GDPR, including *Information Security Policy*; *Protecting Information Assets*; and *Breach Handling Policy*.
- A series of general communications is being issued to all staff informing them of the changes in the law. All staff training, on *Information Handling*, which includes a module on GDPR, has been rolled out via the Civil Service on-line platform, which is to be completed before 25 May 2018.
- Updates to personal data inventories are being undertaken across the organisation, which is a fundamental action to identify what personal information is held and the legal basis for processing personal data.
- Data Transfer Agreements relating to information associated with forestry grants will be updated with the paying agency, Rural Payments and Inspections Directorate (RPID).



Trefor Owen

Interim Accountable Officer

6 August 2018

## Remuneration and Staff Report

### Remuneration Policy

The permanent role of Chief Executive of Forest Enterprise Scotland is 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. The interim role of Chief Executive was an internal appointment.

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](http://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.

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.

## 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.

## Remuneration Report

### Salary and Pension Information - Audited

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

	Salary		Bonus payments		Benefits in kind		Pension Benefits		Total	
	2017/18	2016/17	2017/18	2016/17	2017/18	2016/17	2017/18	2016/17	2017/18	2016/17
	£000	£000	£000	£000	to nearest £100	to nearest £100	£000	£000	£000	£000
Alan Stevenson	65-70	65-70	-	-	-	-	-	10	65-70	75-80
Brent Meakin (2)	40-45	60-65	-	-	-	3,300	15	59	55-60	120-125
Donna Mortimer	60-65	50-55	-	-	-	-	75	28	135-140	65-70
Michael Ansell	70-75	70-75	-	-	-	-	15	18	85-90	85-90
Michael Hymers	50-55	45-50	-	-	7,500	10,300	36	21	95-100	75-80
Nicol Sinclair (1)	70-75	-	-	-	-	-	17	-	85-90	-
Rosetta Forbes	45-50	45-50	-	-	-	-	8	8	55-60	50-55
Simon Hodge (3)	80-85	75-80	5-10	-	-	-	11	22	95-100	95-100
Trefor Owen (4)	70-75	70-75	-	-	-	-	8	17	80-85	85-90

<sup>1</sup> Nicol Sinclair is employed by Central Services and his salary and pension information is included here for information.

<sup>2</sup> Brent Meakin was a member of the FES Management Board but did not attend any meetings during the period and retired on ill health grounds in February 2018.

<sup>3</sup> Simon Hodge left the organisation on 18th April 2018 to take up a post at Crown Estate Scotland.

<sup>4</sup> Trefor Owen was appointed Interim Accountable Officer on 11th April 2018.

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.

## 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.

## Bonuses

Bonuses are based on performance levels attained and are made as part of the appraisal process. Bonuses relate to the performance in the year that they become payable to the individual. The bonuses paid to senior members of staff in the reporting period relate to performance in 2016/17.

## 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:

	<b>Balance at 1 April 2017</b>	<b>Balance at 31 March 2018</b>	<b>Maximum balance during the year</b>
	£000	£000	£000
Michael Hymers	6	4	6

## 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.

The banded remuneration of the highest paid director in Forest Enterprise Scotland in the financial year 2017/18 was £85k-£90k (2016/17 £75k-£80k). This was 3.05 times the median remuneration of the workforce (2016/17 2.76 times), which was £25k - £30k (2016/17 £25k-£30k).

In 2017/18, no employees received remuneration in excess of the highest paid director (2016/17, nil). Remuneration ranged from £17.2k to £88.8k (2016/17: £3.5k to £79k).

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 2017/18 was £23,706k (2016/17; £21,964k).

## Pension Benefits - Audited

	Accrued pension at pension age at 31 March 2018 and related lump sum (£)	Real increase in pension and related lump sum at pension age	CETV at 31 March 2018	CETV at 31 March 2017*	Real increase in CETV	Employer contribution to partnership pension account
	£000	£000	£000	£000	£000	to nearest £100
Alan Stevenson	30-35 plus LS of 95-100	0-2.5 plus LS of 0-2.5	735	718	-	-
Donna Mortimer	20-25	2.5-5	244	193	36	-
Michael Hymers	15-20	0-2.5	201	171	17	-
Michael Ansell	10-15	0-2.5	289	254	15	-
Nicol Sinclair	25-30 plus LS of 65 to 70	0-2.5	448	415	5	-
Rosetta Forbes	-	-	-	-	-	8,200
Simon Hodge	35-40 plus LS of 100-105	0-2.5 plus LS of 2.5-5	764	700	8	-
Brent Meakin	20-25 plus LS of 50-55	0-2.5	365	339	6	-
Trefor Owen	45-50	0-2.5	817	764	3	-

\*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 1 April 2015 a new pension scheme for civil servants was introduced – the Civil Servants and Others Pension Scheme or **alpha**, which provides benefits on a career average basis with a normal pension age equal to the member's State Pension Age (or 65 if higher). From that date all newly appointed civil servants and the majority of those already in service, joined **alpha**. Prior to that date, civil servants participated in the Principal Civil Service Pension Scheme (PCSPS). The PCSPS has four sections: three providing benefits on a final salary basis (**classic**, **premium** or **classic plus**) with a normal pension age of 60; and one providing benefits on a whole career basis (**nuvos**) with a normal pension age of 65.

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**, **nuvos** and **alpha** are increased annually in line with Pensions Increase legislation. Existing members of the PCSPS who were within ten years of their normal

pension age on 1 April 2012 remained in the PCSPS after 1 April 2015. Those who were between ten years and thirteen years and 5 months from their normal pension age on 1 April 2012 will switch into **alpha** sometime between 1 June 2015 and 1 February 2022.

All members who switch to **alpha** have their PCSPS benefits 'banked', with those with earlier benefits in one of the final salary sections of the PCSPS having those benefits based on their final salary when they leave **alpha**. (The pension figures quoted for officials show pension earned in PCSPS or **alpha** – as appropriate. Where the official has benefits in both the PCSPS and **alpha** the figure quoted is the combined value of their benefits in the two schemes.) 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 salary-related and range between 4.6% and 8.05% for members of classic, premium, classic plus, nuvos and alpha. 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 his 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. Benefits in alpha build up in a similar way to nuvos, except that the accrual rate is 2.32%. 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.

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 his 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. Benefits in **alpha** build up in a similar way to **nuvos**, except that the accrual rate is 2.32%. 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 8% and 14.75% (depending on the age of the member) into a stakeholder pension product chosen by the employee from a panel of 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 0.5%

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 sixty for members of **classic**, **premium** and **classic plus**, sixty-five for members of **nuvos**, and the higher of sixty-five or State Pension Age for members of **alpha**. (The pension figures quoted for officials show pension earned in PCSPS or alpha – as appropriate. Where the official has benefits in both the PCSPS and alpha the figure quoted is the combined value of their benefits in the two schemes, but note that part of that pension may be payable from different ages.)

Further details about the Civil Service pension arrangements can be found at the website [www.civilservicepensionscheme.org.uk](http://www.civilservicepensionscheme.org.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 in accordance with The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008 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 remuneration of Non-Executives members of the National Committee for Scotland were borne by FCS and are detailed in the FCS accounts.

## Staff Report

### Number of Senior Civil Servants by Band

<b>Band</b>	<b>2017/18</b>	<b>2016/17</b>
1A	1	1
1	2	2

### Staff numbers and costs - Audited

#### Number of persons employed at the year end

The number of whole-time equivalent persons employed as at 31 March 2018 was as follows:

			<b>2017/18</b>	<b>2016/17</b>
	<b>Permanently employed staff Number</b>	<b>Others Number</b>	<b>Total Number</b>	<b>Total Number</b>
Directly employed	791	58	<b>849</b>	789
Other	-	20	<b>20</b>	14
<b>Total</b>	<b>791</b>	<b>78</b>	<b>869</b>	<b>803</b>

## Staff numbers and costs

Staff costs comprise:

	<b>2017/18</b>	<b>2016/17</b>
	£000	£000
Salaries	23,706	21,964
Social security costs	2,345	2,149
Other pension costs	4,716	4,375
Temporary/agency	610	590
	<b>31,377</b>	<b>29,078</b>
Less recoveries in respect of outward secondments	-	-
	<b>31,377</b>	<b>29,078</b>

The Principal Civil Service Pension Scheme (PCSPS) and the Civil Servant and Other Pension Scheme (CSOPS) – known as “Alpha” – are unfunded multi-employer defined benefit schemes but Forest Enterprise Scotland is unable to identify its share of the underlying assets and liabilities.

The scheme actuary valued the PCSPS as at 31 March 2012. You can find details in the resource accounts of the Cabinet Office: Civil Superannuation <https://www.civilservicepensionscheme.org.uk/about-us/resource-accounts>

For 2017/18, employers’ contributions of £4,612k were payable to the PCSPS (2016/17: £4,167k) at one of four rates in the range 20% to 24.5% 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 the reporting year, 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 £59,649 were paid to one or more of the panel of three appointed stakeholder pension providers. Employer contributions are age-related and range from 8% to 14.75% of pensionable pay. Employers also match employee contributions up to 3% of pensionable pay. In addition, employer contributions of £2,123 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 (2016/17 £nil). Contributions prepaid at that date were also £nil in both years.

Two individuals retired early on ill health grounds (2016/17: two); the total additional accrued pension liabilities in the year amounted to £22,720 (2016/17: £2,600).

Benefits in kind are provided under the following schemes:

- Advances of salary for house purchase (see Note 11);
- 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 - Audited

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 following table.

Exit package cost band	Number of compulsory redundancies		Number of other departures agreed		Total number of exit packages by cost band	
	2017/18	2016/17	2017/18	2016/17	2017/18	2016/17
<£10,000	-	-	-	-	-	-
£10,000 - £25,000	-	-	3	-	3	-
£25,000 - £50,000	-	-	4	-	4	-
£50,000 - £100,000	-	-	2	-	2	-
£100,000- £150,000	-	-	-	-	-	-
£150,000- £200,000	-	-	-	-	-	-
<b>Total number of exit packages</b>	-	-	9	-	9	-
<b>Total resource cost / £</b>	£0	£0	£342,428	£0	£342,428	£0

Forestry Commission Central Services staff departing due to the restructuring of corporate services have their exit package costs shared between Forest Enterprise Scotland (32.7%), Forestry Commission Scotland (8.2%) and Forestry Commission England (59.1%). The total costs are disclosed here for transparency purposes.

## Policy

Forest Enterprise Scotland is committed to the development of all of our employees. The period 2017/18 has seen a wide range of changes in how we provide support to our employees, including the creation of a dedicated team for Scotland, including HR, Health & Safety and Learning & Development.

We continue to advance equality of opportunity in our recruitment processes. This includes applying the "Guaranteed Interview Scheme" to ensure that job applicants with one or more disabilities are invited for interview, where they can demonstrate that they meet the essential criteria, competencies and behaviours as set out in the relevant person specifications.

In order to support employees who have one or more disabilities and those who develop health conditions during their employment with Forest Enterprise Scotland, we consider and implement reasonable adjustments. That is, we consider making changes to the way something is done to ensure employees do not encounter any detriment in fulfilling the responsibilities of their job as a result of their disability and/or health condition. Examples include provision of specialist equipment or an adjustment to working hours.

Equality monitoring takes place to ensure that all employees continue to be treated fairly in relation to training, performance management and discipline and grievances. The results of the monitoring exercises are reported each year within the Annual Equality Monitoring Report. The most recent report covers the period 2016-17 and this was published in March 2018.

A refreshed People Strategy for 2016-2020 was published in 2016 and this set out the strategic direction for the organisation with the following key themes:

- Employee Health, Safety and Wellbeing;
- Engagement through Change;
- Right People, Right Place, Right Time;
- Employee Knowledge and Skills;
- Equality and Diversity; and
- Recognition and Reward.

In 2017/18 we have:

- continued to support managers to ensure the Agency meets its duty of care to employees and its legal obligations as an employer;
- delivered change workshops to all staff in Scotland, to help them prepare for change over the coming years;
- 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 Assessments;

- established dedicated teams in Scotland to support health and safety and Learning & Development, coming together with Human Resources as an integrated HR Scotland team;
- provided occupational health surveillance for those employees engaged in physical or hazardous activities, including HAVS and Audio examinations;
- Introduced a new Workforce Planning approach and publishing a strategic Workforce Plan;
- adopted the new Apprenticeship Levy and established a new southern Apprenticeship Hub, recruiting 8 Modern Apprentices;
- delivered workshops across Scotland on equality, diversity and inclusion and raise awareness of unconscious bias; and
- continued to simplify our Human Resources policies and procedures, publishing the new versions in a standard format.

## Equality, Diversity and Inclusion

Forest Enterprise Scotland is committed to eliminating discrimination, advancing equality of opportunity and fostering good relations between different protected characteristic groups. The Forestry Commissioners and Executive Boards 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.

Team capacity dedicated to equality, diversity and inclusion was devolved from a central support team to Forestry Commission Scotland in April 2016 (and subsequently to Forest Enterprise Scotland in April 2017), with the creation of a dedicated Equality and Diversity Manager post. Over this time work has taken place to meet our public sector equality duties along with our colleagues in England, Forest Research and Central Services, whilst also providing support specific to colleagues in Scotland.

At the end of the 2017/18 financial year, the split of staff by gender for Forest Enterprise Scotland was:

	Director	Senior Manager	Employee	2017/18	2016/17
Male	1	23	591	615	600
Female	0	8	246	254	203
<b>Total</b>	<b>1</b>	<b>31</b>	<b>837</b>	<b>869</b>	<b>803</b>

Areas of specific focus this year included:

- ensuring that the Commission's internal processes and procedures comply with the Equality Act and related regulations, and keeping staff informed of legislative

requirements and future requirements as we move closer to full devolution of forestry to the Scottish Government;

- continuing to implement our Equality Objectives to cover the period 2016-2020, in line with our public sector equality duties;
- publication of the Commission's Annual Equality Monitoring Report by the required deadline;
- ensuring a strategic approach to diversity and inclusion by developing a Equality, Diversity & Inclusion strategy and interim action plan;
- taken positive action when recruiting key posts in functions where greater diversity is required;
- regular meetings of the Equality and Diversity Steering Group to help further mainstream equality into the day to day work of the organisation; and
- continuing to provide 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 Annual Equality Monitoring Report.

## Modern Slavery

The Forestry Commission produces an annual statement (on behalf of FES) which expresses the organisation's zero tolerance to slavery and human trafficking and its commitment to ensuring that there is no modern slavery or human trafficking in its supply chains or in any part of its business. It also outlines the steps that it has taken to reduce the risk of modern slavery in its business.

## Anti-Bribery and Anti-Corruption

FES's policies of Discipline, Gifts & Hospitality, and Whistleblowing are given to all new members of staff during their induction. The policies are reviewed on a regular basis to ensure that they are kept up to date and relevant, these actions greatly reduce the possibility of our staff being involved in any form of bribery or corruption, and if approached know who to report it to.

## Health & Safety

Information about Health & Safety is shown within the Performance Analysis on page 23.

## Sickness absence data

Forest Enterprise Scotland pro-actively manage staff sickness absences with an average number of working days lost per person amounting to 11.5 during 2017/18 (2016/17: 9.5).

## Learning & Development

We continue to invest in the training and development of our staff. In 2017-18 we have:

- Embedded the dedicated Learning & Development team in Scotland, working with internal stakeholders to understand the strategic and operational learning needs of staff;
- supported staff through change in Land Management and Community & Visitor Services future structures;
- undertaken preparatory work to establish service provision for the new agency;
- supported the design and development of the induction and training of new Modern Apprentices;
- supported in the design and development of Focus Group events on the future vision and culture of the new agency;
- developed a new management training resource, utilising in-house and CSL materials, open to all FCS staff – the Managers Academy; and
- introduced a new online 'google forms' methodology for commissioning training, learning and development.

## Employee consultation and trade union relationship

We continue to have a strong relationship with the Forestry Commission Trade Unions (FCTU) and encourage staff to join them should they wish. Through our Partnership Agreement, FES and the FCTU are committed to working together to the mutual benefit of staff and the organisation and to help each achieve their goals. We acknowledge the important contribution that Trade Union representatives make and demonstrate our commitment to their role by helping to ensure that time is made available to them, through their Forward Job Plans, to carry out their duties and that their contributions are acknowledged in the reporting process.

Statistical information with regard to Trade Union consultation and relationships can be found on our website as per UK government guidance.



Trefor Owen  
Interim Accountable Officer  
6 August 2018

## Parliamentary Accountability and Audit Report

### Losses and Special Payments

	2017/18		2016/17	
	Number	£000	Number	£000
Losses total	14	47	11	437
Special payments total	31	26	83	250
	<b>45</b>	<b>73</b>	<b>94</b>	<b>687</b>

### Fees & Charges

Forestry Enterprise Scotland has complied with the cost allocation and charging requirements set out in SG Public Finance Manual.

### Remote contingent liabilities

In addition to contingent liabilities reported in note 20 of these accounts, Forest Enterprise Scotland also reports liabilities for which the likelihood of a transfer of economic benefit in settlement is too remote to meet the definition of contingent liability.

There are currently no remote contingent liabilities.



Trefor Owen

Interim Accountable Officer  
6 August 2018

## Independent Auditor's Report

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

This report is made solely to the parties to whom it is addressed in accordance with the Forestry Act 1967 and for no other purpose. In accordance with paragraph 120 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.

### Report on the audit of the financial statements

#### Opinion on financial statements

I have audited the financial statements in the annual report and accounts of Forest Enterprise Scotland for the year ended 31 March 2018 under the Forestry Act 1967. The financial statements comprise the Statement of Comprehensive Net Expenditure, the Statement of Financial Position, the Statement of Cash Flows, the Statement of Changes in Taxpayers' Equity and notes to the financial statements, including a summary of significant accounting policies. 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 2017/18 Government Financial Reporting Manual (the 2017/18 FReM).

In my opinion the accompanying 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 2018 and of its net income 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 2017/18 FReM; and
- have been prepared in accordance with the requirements of the Forestry Act 1967 and directions made thereunder by the Scottish Ministers.

#### Basis of opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing (UK) (ISAs (UK)). My responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of my report. I am independent of the body in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

#### Conclusions relating to going concern basis of accounting

I have nothing to report in respect of the following matters in relation to which the ISAs (UK) require me to report to you where:

- the use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or

- the body has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about its ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

## **Responsibilities of the Accountable Officer for the financial statements**

As explained more fully in the Statement of Accountable Officer's Responsibilities, the Accountable Officer is responsible for the preparation of financial statements that give a true and fair view in accordance with the financial reporting framework, and for such internal control as the Accountable Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Accountable Officer is responsible for assessing the body's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless deemed inappropriate.

## **Auditor's responsibilities for the audit of the financial statements**

My objectives are to achieve reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of my auditor's report.

## **Other information in the annual report and accounts**

The Accountable Officer is responsible for the other information in the annual report and accounts. The other information comprises the information other than the financial statements, the audited part of the Remuneration and Staff Report, and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon except on matters prescribed by the Auditor General for Scotland to the extent explicitly stated later in this report.

In connection with my audit of the financial statements, my responsibility is to read all the other information in the annual report and accounts and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If I identify such material inconsistencies or apparent material misstatements, I am required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

## Report on regularity of expenditure and income

### 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.

### Responsibilities for regularity

The Accountable Officer is responsible for ensuring the regularity of expenditure and income. I am responsible for expressing an opinion on the regularity of expenditure and income in accordance with the Public Finance and Accountability (Scotland) Act 2000.

## Report on other requirements

### Opinions on matters prescribed by the Auditor General for Scotland

In my opinion, the audited part of the Remuneration and Staff Report has been properly prepared in accordance with the Forestry Act 1967 and directions made thereunder by the Scottish Ministers.

In my opinion, based on the work undertaken in the course of the audit:

- the information given in the Performance Report for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Forestry Act 1967 and directions made thereunder by the Scottish Ministers; and
- the information given in the Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Forestry Act 1967 and directions made thereunder by the Scottish Ministers.

### Matters on which I am required to report by exception

I am required by the Auditor General for Scotland to report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the financial statements and the audited part of the Remuneration and Staff Report are not in agreement with the accounting records; or
- I have not received all the information and explanations I require for my audit.

I have nothing to report in respect of these matters.

Mark Taylor CPFA  
Audit Director  
Audit Scotland  
4<sup>th</sup> Floor  
102 West Port  
Edinburgh  
EH3 9DN



9 August 2018

## Statement of Comprehensive Net Expenditure

For the year ended 31 March 2018

	<b>2017/18</b>	<b>2016/17</b>
Note	£000	£000
<b>Operating Income</b>		
Sales of timber	(67,932)	(65,420)
Forest protection and maintenance	(2,241)	(3,278)
Management & development of estate	(14,291)	(13,626)
	<u>(84,464)</u>	<u>(82,324)</u>
<b>Operating Expenditure</b>		
Forest planning	6,785	5,940
Timber operations	24,147	25,346
Forest protection and maintenance	37,242	37,346
Management & development of estate	9,473	5,020
Value of felled timber	40,341	40,865
7	<u>117,988</u>	<u>114,517</u>
	<u><b>33,524</b></u>	<u><b>32,193</b></u>
<b>Net sustainable land management</b>		
<b>Communities, recreation and tourism</b>		
Income	(3,471)	(3,089)
Expenditure	13,909	14,092
	<u>10,438</u>	<u>11,003</u>
<b>Environment and heritage</b>		
Income	(301)	(299)
Expenditure	9,512	7,157
	<u>9,211</u>	<u>6,858</u>
<b>Estate improvements</b>		
Income	-	-
Expenditure	8,803	9,227
	<u>8,803</u>	<u>9,227</u>
<b>Management services</b>		
Income	(757)	(2,174)
Expenditure	1,316	172
	<u>559</u>	<u>(2,002)</u>

## Statement of Comprehensive Net Expenditure

For the year ended 31 March 2018  
continued

	Note	2017/18 £000	2016/17 £000
<b>Net expenditure before (Gain)/Loss on revaluation of biological assets</b>		<b>62,536</b>	<b>57,279</b>
Loss on revaluation of biological assets transferred to NCAHFS	7	138	1,995
(Gain)/Loss on revaluation of biological assets	7	(86,878)	(24,850)
<b>Net expenditure after (Gain)/Loss on revaluation of biological assets</b>		<b>(24,206)</b>	<b>34,425</b>
Government grant		(22,643)	(21,700)
(Gain)/Loss on sale of properties	4	(3,252)	2,807
<b>Net (income)/expenditure for the year</b>		<b>(50,100)</b>	<b>15,531</b>
Transferred to general fund		(50,100)	15,531

All income and expenditure is derived from continuing operations.

### Other Comprehensive net expenditure

	2017/18 £000	2016/17 £000
Net (gain)/loss on revaluation of property plant and equipment	(140,724)	1,408
Net (gain)/loss on revaluation of financial asset	(383)	(588)
<b>Total other comprehensive net (income)/expenditure</b>	<b>(141,107)</b>	<b>820</b>
<b>Comprehensive net (income)/expenditure for the year</b>	<b>(191,207)</b>	<b>16,351</b>

## Statement of Financial Position

As at 31 March 2018

		2017/18	2016/17
	Note	£000	£000
<b>Non current assets</b>			
Property, plant and equipment	5	1,321,948	1,179,346
Biological assets	7	945,143	901,173
Financial assets	6	3,083	2,700
Trade and other receivables	11	1,830	1,526
<b>Total non current assets</b>		<b>2,272,004</b>	<b>2,084,745</b>
<b>Current assets</b>			
Non-current assets held for sale	8	2,995	877
Inventories	10	5,604	4,548
Trade and other receivables	11	24,242	20,167
Cash and cash equivalents	12	37,845	31,500
<b>Total current assets</b>		<b>70,686</b>	<b>57,092</b>
<b>Total assets</b>		<b>2,342,690</b>	<b>2,141,837</b>
<b>Current liabilities</b>			
Provisions	14	(667)	(284)
Trade and other payables	13	(13,822)	(10,145)
<b>Total current liabilities</b>		<b>(14,489)</b>	<b>(10,429)</b>
<b>Total assets less current liabilities</b>		<b>2,328,201</b>	<b>2,131,408</b>
<b>Non current liabilities</b>			
Provisions	14	(3,269)	(103)
Trade and other payables	13	(1,807)	(1,925)
<b>Total non current liabilities</b>		<b>(5,076)</b>	<b>(2,028)</b>
<b>Assets less liabilities</b>		<b>2,323,125</b>	<b>2,129,380</b>
<b>Taxpayers' equity</b>			
General fund		1,276,006	1,223,588
Revaluation reserve		1,047,119	905,792
<b>Total taxpayers' equity</b>		<b>2,323,125</b>	<b>2,129,380</b>

The notes on pages 67 to 106 form part of these accounts. The Interim Accountable Officer authorised these financial statements for issue on 6 August 2018.



Trefor Owen

Interim Accountable Officer  
6 August 2018

## Statement of Cash Flows

As at 31 March 2018

	Note	<u>2017/18</u>	<u>2016/17</u>
		£000	£000
<b>Cash flows from operating activities</b>			
Net operating expenditure		50,100	(15,531)
Adjustments for non cash transactions:			
Depreciation charges	5	3,163	3,208
Timing between accrual and cash VAT		-	-
Non-cash inter-country transfers		-	(1)
(Profit)/loss on disposal of buildings, forest estate and land		(3,958)	256
(Profit)/loss on disposal of other PPE		(46)	149
(Gain)/loss on revaluation of biological assets	7,8	(86,741)	(22,854)
Book value of felled timber	7	40,341	40,865
Revaluation Gain/Impairment of PPE		-	258
Property, plant and equipment written off	5	-	-
Revaluation reserve written off		2,898	1,016
Movement in Receivables relating to items not passing through the Statement of Comprehensive income		-	-
Other non cash transactions		1	1
Movement in provisions	14	3,910	167
(Increase)/decrease in inventories		(1,057)	(158)
(Increase)/decrease in trade and other receivables		(4,379)	906
Increase/(decrease) in trade and other payables		3,495	(990)
Use of provisions	14	(361)	(104)
Decrease/(increase) in plant & seed (biological assets)		(71)	(67)
<b>Net cash inflow/(outflow) from operating activities</b>		<b>7,295</b>	<b>7,121</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment		(10,469)	(2,190)
Proceeds of disposal of properties	4	9,124	4,714
Proceeds of disposal of other property, plant and equipment	4	390	314
Disposal of biological assets	7	5	1,885
Forest Holidays investment		-	-
<b>Net cash inflow from investing activities</b>		<b>(950)</b>	<b>4,723</b>
<b>Net increase / (decrease) in cash and cash equivalents in the period</b>		<b>6,345</b>	<b>11,844</b>
<b>Cash and cash equivalents at the beginning of the period</b>		<b>31,500</b>	<b>19,656</b>
<b>Cash and cash equivalents at the end of the period</b>	12	<b>37,845</b>	<b>31,500</b>

## Statement of Changes in Taxpayers' Equity

As at 31 March 2018

	General Fund	Revaluation Reserve	Total
	£000	£000	£000
<b>Balance at March 2017</b>	<b>1,223,588</b>	<b>905,792</b>	<b>2,129,380</b>
Change in accounting standard	-	-	-
<b>Balance at 1 April 2017</b>	<b>1,223,588</b>	<b>905,792</b>	<b>2,129,380</b>
<b>Changes in taxpayers' equity</b>			
Net gain/(loss) on revaluation of property, plant and equipment	-	141,107	141,107
Net gain/(loss) on revaluation of NCAHFS	-	(360)	(360)
Non-cash charges - timing between accrual and cash VAT	-	-	-
Non-cash charges - intercountry transfers	-	-	-
Realised element of reserves	2,318	(2,318)	-
General fund write off	-	-	-
Capitalisation of Forest Holiday Loan Notes	-	-	-
Release of reserves to the SoCNE	-	2,898	2,898
Transfer of property, plant and equipment from/to other forestry bodies	-	-	-
Net operating expenditure	50,100	-	50,100
<b>Total recognised income and expense</b>	<b>52,418</b>	<b>141,327</b>	<b>193,745</b>
<b>At 31 March 2018</b>	<b>1,276,006</b>	<b>1,047,119</b>	<b>2,323,125</b>

## Statement of Changes in Taxpayers' Equity - continued

As at 31 March 2017

2016/17	General Fund	Revaluation Reserve	Total
	£000	£000	£000
<b>Balance at 31 March</b>	<b>1,237,329</b>	<b>909,093</b>	<b>2,146,422</b>
Change in accounting standard	-	-	-
<b>Balance at 1 April</b>	<b>1,237,329</b>	<b>909,093</b>	<b>2,146,422</b>
<b>Changes in taxpayers' equity</b>			
Net gain/(loss) on revaluation of property, plant and equipment	-	(820)	(820)
Net gain/(loss) on revaluation of NCAHFS	-	(1,705)	(1,705)
Non-cash charges - timing between accrual and cash VAT	-	-	-
Non-cash charges - intercountry transfers	(1)	-	(1)
General fund write off	-	-	-
Realised element of reserves	1,792	(1,792)	-
Release of reserves to the SoCNE	-	1,016	1,016
Capitalisation of Forest Holiday loan notes	-	-	-
Transfer of property, plant and equipment from/to other forestry bodies	-	-	-
Transfer of National Estate transactions	-	-	-
Net operating expenditure	(15,531)	-	(15,531)
<b>Total recognised income and expense</b>	<b>(13,740)</b>	<b>(3,301)</b>	<b>(17,041)</b>
<b>At 31 March</b>	<b>1,223,588</b>	<b>905,792</b>	<b>2,129,380</b>

## Notes to the Financial Statements

### NOTE 1 ACCOUNTING POLICIES

#### 1.1 Statement of accounting policies

These financial statements have been prepared on a going concern basis and in accordance with the 2017/18 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.

#### 1.2 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 at fair value through profit or loss.

#### 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. 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 and Staff 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

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.

## 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 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' and 'Leases' at 1.7 and 1.13 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. The Valuation Office Agency (VOA) were appointed as the Commission's valuers as from the full valuation during 2018.

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 VOA who are contracted to undertake the work until 2021/22.

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 VOA.

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 Expenditure in the year of revaluation or indexation.

## Non-Forest Land

Non-forest land is shown at fair value. Valuation Office Agency (VOA) were employed by FES to undertake a full revaluation of non-forest land coinciding with that for the Forest Estate (31 March 2018). 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.

Agricultural land, open land and car parks are restated annually using indices provided by VOA 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.

VOA undertook a full desktop revaluation of dwellings and other buildings coinciding with that for the Forest Estate and Other Land. This was based on valuation data provided by professionally qualified staff within FES. 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 value of Dwellings and other buildings is restated annually between full revaluations using indices provided by the District Valuer and VOA.

## 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 Expenditure 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 Expenditure 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, with indices provided by the Office of National Statistics used in the intervening years. An index-linked revaluation took place on 31 March 2018. 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 Expenditure. 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.

## **1.6 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 Expenditure.

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

## 1.7 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.

## 1.8 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 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.

## 1.9 Funding paid to Forest Enterprise Scotland

Forest Enterprise Scotland receives an annual funding Grant from the Scottish Government via 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 Expenditure.

## 1.10 Public corporation dividend

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

## 1.11 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.

## 1.12 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.

## 1.13 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 1.5 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 Expenditure 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.

## 1.14 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 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 Forest Enterprise 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 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.

## 1.17 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 Expenditure.

## (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 Expenditure 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 Expenditure.

Impairment losses recognised in the Statement of Comprehensive Net Expenditure on equity instruments are not reversed through the expenditure statement.

## 1.18 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 Forest Enterprise Scotland and shown in its accounts within borrowings in current liabilities on the Statement of Financial Position.

## 1.19 Financial Liabilities

These comprise trade and other payables and other financial liabilities (including derivatives). They are initially recognised at fair value and are subsequently measured at amortised cost.

## 1.20 Effective in these financial statements

All International Financial Reporting Standards (IFRS), Interpretations and Amendments effective at 31 March 2018 have been adopted in these statements, taking account of the specific interpretations and adaptations included within the FReM.

## 1.21 Effective for future financial years

IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors, requires disclosures in respect of new IFRSs, amendments, and interpretations that are, or will be applicable after the reporting period. There are a number of IFRSs, amendments and interpretations that have been issued by the International Accounting Standards Board that are effective for future reporting periods. Those with relevance to FES are outlined below. None have been adopted early, and all will be applied once adopted formally by the FReM.

- **IFRS 15 – Revenue from Contracts with Customers** - This is effective from 1 January 2018. This standard replaces all existing IFRS guidance on revenue recognition.
- **IFRS 9 – Financial Instruments** - This is effective from 1 January 2018. This standard brings together all three phases of the financial instruments project: Classification and Measurement; Impairment and Hedge Accounting.
- **IFRS 16 – Leases** - This standard is effective from 1 January 2019. It will supersede all existing IFRS standards on leases. It is likely to result in a uniform accounting treatment for all leases, with the distinction between operating and finance leases removed.

Forest Enterprise Scotland will apply the standards at their formal effective date.

## NOTE 2 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

### 2.1 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.

## 2.2 Critical judgements in applying the accounting policies

The following are the critical judgements and estimates that have been made in the process of applying Forest Enterprise 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 5% and 8% 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 10-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 hectares 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. To ensure compliance with RICS valuation standards, external professional valuers review any work carried out by internal valuers for consistency and appropriateness. Where appropriate, management ensures that external professional valuations are obtained where active markets operate.

The 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 2018. It has been agreed that this is a reasonable estimation of the revaluation reserve for each category as at 31 March 2018.

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.

## Vehicles and Mechanical Equipment (VME)

In 2017/18 VME assets have been revalued using the alternative 'cost-based' approach permitted under IFRS 13 when there is an absence of reliable market-based information with which to generate fair values. Internally generated fair values have been produced based on Forest Enterprise Scotland's specialist expertise and knowledge of the forestry sector.

## Dwellings and Other Buildings

Other Buildings primarily includes specialist buildings held for operational activities and for which there are no active external markets. To ensure compliance with RICS valuation standards, external professional valuers review any work carried out by 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 are currently disclosed as a contingent liability in these accounts under IAS 36.

The costs relating to restoration of these sites has been stated as £2.9m based on estimations received from the area land agent & 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.

## NOTE 3 NET OPERATING EXPENDITURE

Net operating expenditure, net of Community and Visitor Services, recreation and tourism, Environment and heritage, Estate improvements, and Management services is stated after charging:-

		<u>2017/18</u>	<u>2016/17</u>
	Note	£000	£000
Hire of plant and equipment		2,218	1,811
<u>Operating lease rentals:</u>			
Land and buildings	17	193	160
Plant & machinery	17	276	294
Auditors' remuneration - audit work		62	62
Auditors' remuneration - non-audit work		-	-
Shared central services		3,831	6,142
<u>Provisions:</u>			
Provided in year	14	3,909	157
Provisions not required written back	14	(28)	-
Provisions utilised in year	14	(361)	(104)
Unwinding of discount	14	30	10
Depreciation of property, plant and equipment	5	3,163	3,208

Expenditure includes staff costs, which amounted to £31,377k for 2017/18 (2016/17: £29,078k). A full analysis of these costs, are included within the Remuneration and Staff report (pages 43 to 56).

Expenditure also 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.

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 4 GAIN/(LOSS) ON SALE OF PROPERTIES

	2017/18	2016/17
	£000	£000
Income	9,514	5,028
Book value	(5,514)	(7,319)
Gain/ (loss)	4,000	(2,291)
Disposal costs:		
External costs	(748)	(516)
Administrative expenses	-	-
	(748)	(516)
<b>Surplus / (deficit) on sale of properties</b>	<b>3,252</b>	<b>(2,807)</b>

## NOTE 5 PROPERTY, PLANT AND EQUIPMENT

2017/18	Forest Estate	Land	Dwellings & Other	VME	OME	Assets Under Construction	Total
	£000	£000	£000	£000	£000	£000	£000
<b>Valuation :</b>							
At 1 April 2017	914,571	220,678	48,545	20,241	602	1,094	1,205,731
Additions	775	3,390	511	5,202	26	627	10,531
Transfers	-	-	565	-	-	(565)	-
Transfers to NCAHFS	(3,796)	(352)	(1,365)	-	-	-	(5,513)
Transfers from NCAHFS	-	-	-	-	-	-	-
Disposals	(19)	(137)	(50)	(2,254)	-	-	(2,460)
Write-off / impairment	-	-	-	-	-	-	-
Revaluations	36,500	103,390	2,743	152	-	-	142,785
<b>At 31 March 2018</b>	<b>948,031</b>	<b>326,969</b>	<b>50,949</b>	<b>23,341</b>	<b>628</b>	<b>1,156</b>	<b>1,351,074</b>
<b>Depreciation :</b>							
At 1 April 2017	-	-	14,139	11,861	385	-	26,385
Provided during year	-	-	1,411	1,698	54	-	3,163
Transfers to NCAHFS	-	-	(562)	-	-	-	(562)
Disposals	-	-	(8)	(1,910)	-	-	(1,918)
Write-off / impairment	-	-	-	-	-	-	-
Revaluations	-	-	2,095	(38)	1	-	2,058
<b>At 31 March 2018</b>	<b>-</b>	<b>-</b>	<b>17,075</b>	<b>11,611</b>	<b>440</b>	<b>-</b>	<b>29,126</b>
<b>Net Book Value :</b>							
<b>At 31 March 2018</b>	<b>948,031</b>	<b>326,969</b>	<b>33,874</b>	<b>11,730</b>	<b>188</b>	<b>1,156</b>	<b>1,321,948</b>
At 1 April 2017	914,571	220,678	34,406	8,380	217	1,094	1,179,346
<b>Asset Financing</b>							
Owned	947,081	326,230	33,874	11,628	188	1,156	1,320,157
Finance leased	950	739	-	102	-	-	1,791
<b>At 31 March 2018</b>	<b>948,031</b>	<b>326,969</b>	<b>33,874</b>	<b>11,730</b>	<b>188</b>	<b>1,156</b>	<b>1,321,948</b>

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2016/17	Forest Estate	Land	Dwellings & Other	VME	OME	Assets Under Construction	Total
	£000	£000	£000	£000	£000	£000	£000
<b>Valuation :</b>							
At 1 April 2016	921,736	218,331	49,331	22,144	555	989	1,213,086
Additions	-	352	-	1,500	18	379	2,249
Transfers	-	-	274	-	-	(274)	-
Transfers to NCAHFS	(3,153)	(321)	(163)	-	-	-	(3,637)
Transfers from NCAHFS	-	-	-	-	-	-	-
Disposals	(1,824)	(327)	(307)	(2,283)	-	-	(4,741)
Write-off / impairment	-	-	(188)	-	-	-	(188)
Revaluations	(2,188)	2,643	(402)	(1,120)	29	-	(1,038)
<b>At 31 March 2017</b>	<b>914,571</b>	<b>220,678</b>	<b>48,545</b>	<b>20,241</b>	<b>602</b>	<b>1,094</b>	<b>1,205,731</b>
<b>Depreciation :</b>							
At 1 April 2016	-	-	13,051	11,431	305	-	24,787
Provided during year	-	-	1,295	1,852	61	-	3,208
Transfers to NCAHFS	-	-	(55)	-	-	-	(55)
Disposals	-	-	(98)	(1,821)	-	-	(1,919)
Write-off / impairment	-	-	(7)	-	-	-	(7)
Revaluations	-	-	(47)	399	19	-	371
<b>At 31 March 2017</b>	<b>-</b>	<b>-</b>	<b>14,139</b>	<b>11,861</b>	<b>385</b>	<b>-</b>	<b>26,385</b>
<b>Net Book Value :</b>							
<b>At 31 March 2017</b>	<b>914,571</b>	<b>220,678</b>	<b>34,406</b>	<b>8,380</b>	<b>217</b>	<b>1,094</b>	<b>1,179,346</b>
At 1 April 2016	921,736	218,373	36,280	10,713	250	989	1,188,341
<b>Asset Financing</b>							
Owned	913,741	220,156	34,406	8,380	217	1,094	1,177,994
Finance leased	830	522	-	-	-	-	1,352
<b>At 31 March 2017</b>	<b>914,571</b>	<b>220,678</b>	<b>34,406</b>	<b>8,380</b>	<b>217</b>	<b>1,094</b>	<b>1,179,346</b>

## NOTE 5 PROPERTY, PLANT AND EQUIPMENT continued

### National Forest Estate

The Valuation Office Agency carried out a professional valuation of the Forest Estate including biological assets, non-forest land, houses and other buildings as at 31 March 2018, being a quinquennial valuation year.

The valuation was carried out in line with the International Financial Reporting Standards as interpreted by current HM Treasury Guidance for the public sector for the purposes of Capital Accounting. It was prepared in accordance with the professional standards of the Royal Institution of Chartered Surveyors: RICS Valuation – Global Standards 2017 and the RICS Valuation – Professional Standards UK (January 2014, revised April 2015, commonly known as the Red Book). The methodology was agreed in advance and differing valuation methods were used to report Fair Value figures, in line with the requirements of the Scottish Public Finance Manual and RICS guidance. These included the Comparative Method and Depreciated Replacement Cost Method.

The next full professional revaluation is due as at 31 March 2023.

### Other Land-Related Assets

Professional valuations of other land-related assets such as windfarms, hydro schemes, leased mineral sites and telecoms masts were also undertaken as at 31 March 2018. These were valued by the relevant firms of Chartered Surveyors appointed as managing agents for the various assets, as set out below; the valuations for these assets were also undertaken in line with the requirements of the RICS Red Book, as referred to above:

Windfarms – Bell Ingram LLP

Hydro Schemes – Bell Ingram LLP

Mineral Sites – Johnson Poole & Bloomer *or* Wardell Armstrong LLP

Telecoms Masts - Galbraith

### Buildings

Buildings assets comprise both freehold and leasehold assets.

### VME

Vehicles, Machinery and Equipment (VME) are valued professionally at five-year intervals, with the last professional revaluation having taken place on 31 March 2016. An index-based valuation took place on 31 March 2018, which revalued assets to their fair value of £11,730k.

Professionally qualified staff employed by the Forest Enterprise Scotland undertook the valuation which was approved by the Country Engineer. Index-based revaluations use either appropriate indices provided by the Office of National Statistics, or internal professional staff as appropriate.

## OME

Office Machinery and Equipment (OME) was restated to a current value of £188k as at 31 March 2018 using an index provided by the Office for National Statistics.

## Depreciation

Depreciation expense of £3,163k (2016/17: £3,208k) has been charged in the Statement of Comprehensive Net Expenditure.

## NOTE 6 FINANCIAL ASSETS

	<u>£000</u>
<b>As at 1 April 2015</b>	<b>2,113</b>
Revaluation	587
<b>As at 1 April 2016</b>	<b>2,700</b>
Revaluation	383
<b>At 31 March 2018</b>	<b>3,083</b>

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 £1,033k and £2,050k at 31 March 2018 respectively (31 March 2017 £725k and £1,975k). The fair values were determined by Bilfinger BVA, specialist leisure consultants and chartered surveyors.

The valuation of the investments in the two entities complies with IFRS 13, insofar as the valuers have considered the valuation techniques and valuation hierarchy specified in IFRS 13. In arriving at their opinion, the valuers used a combination of the 'market approach', 'cost approach' and 'income approach' to valuing the investments. Meanwhile, the inputs used to arrive at fair value are consistent with the fair value

hierarchy defined within IFRS 13; specifically the inputs constitute 'level 3' inputs, which is consistent with the accounting standard.

The Forest Holidays principle shareholder Lloyds Development Capital (LDC) decided to sell their majority stake in the business in the autumn of 2017. Most of the equity owned by LDC was sold to Phoenix Equity with the deal closing in December 2017. The Forestry Commission interest as a minority shareholder in the sale and deal reached with Phoenix was overseen by a GB group (FCE/FEE, FES and NRW) led by Ian Gambles Director FC England with business conducted by Forest Enterprise England as they hold the largest component of the FC stake. FEE employed financial and legal consultants to provide advice on handling. The FES CEO consulted the Cabinet Secretary on handling and sought advice on the decision to retain a FES shareholding in the Forest Holidays business.

## **NOTE 7 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 at 31 March 2018 was £945,143k (2016/17: £901,173k). The Valuation Office Agency carried out a professional valuation of the biological assets.

The next full revaluation is due at 31 March 2023.

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

	<u>2017/18</u>	<u>2016/17</u>
	£000	£000
<i>Trees</i>		
At 1 April	899,924	920,717
Purchases during the period	-	-
Transfers in from PPE	-	-
Disposals	(5)	(1,885)
Fellings	(40,341)	(40,865)
Transferred to NCAHFS	(2,633)	(2,893)
Transferred from NCAHFS	-	-
Gains and losses arising from changes in fair values	86,878	24,850
<b>At 31 March</b>	<b>943,823</b>	<b>899,924</b>
<i>Plant &amp; Seed</i>		
<b>At 31 March</b>	<b>1,320</b>	<b>1,249</b>
<b>Biological Assets at 31 March</b>	<b>945,143</b>	<b>901,173</b>
Biological assets transferred to NCAHFS and revalued down	(138)	(1,995)

## NOTE 8 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 2019.

	<u>Forest Estate</u>	<u>Other Land</u>	<u>Buildings</u>	<u>Total</u>
	£000	£000	£000	£000
<b>At 1 April 2016</b>	<b>739</b>	<b>10</b>	<b>-</b>	<b>749</b>
Transfers from PPE & Biological Assets	6,045	362	109	<b>6,516</b>
Transfers to PPE & Biological Assets	-	-	-	-
Disposals	(2,465)	(37)	(109)	<b>(2,611)</b>
Impairments	(3,570)	(207)	-	<b>(3,777)</b>
<b>At 31 March 2017</b>	<b>749</b>	<b>128</b>	<b>-</b>	<b>877</b>
Transfers from PPE & Biological Assets	6,429	351	804	<b>7,584</b>
Transfers to PPE & Biological Assets	-	-	-	-
Disposals	(4,154)	(231)	(584)	<b>(4,969)</b>
Impairments*	(381)	(20)	(96)	<b>(497)</b>
<b>At 31 March 2018</b>	<b>2,643</b>	<b>228</b>	<b>124</b>	<b>2,995</b>

\*Biological assets revaluation loss of £138k (2016/17: loss £1,995k) is included within impairments and has been taken to the Statement of Comprehensive Net Expenditure.

Buildings revaluation loss of £96k (2016/17: £138k) is also included within impairments and taken to the Statement of Comprehensive Net Expenditure.

Losses on the revaluation of Other land of £20k have also been included in impairments (2016/17: £Nil) and taken to the Statement of Comprehensive Net Expenditure.

## NOTE 9 FINANCIAL INSTRUMENTS

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

	<u>2017/18</u>	<u>2016/17</u>
	£000	£000
Balance at 1 April	2,700	2,112
Revaluation	383	588
<b>Balance at 31 March</b>	<b>3,083</b>	<b>2,700</b>

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

### 9 (b) - Financial instruments by category

	<u>Loans and</u>	<u>Available-</u>	<u>2017-18</u>	<u>Loans and</u>	<u>Available-</u>	<u>2016-17</u>
	receivables	for-sale	Total	receivables	for-sale	Total
	£000	£000	£000	£000	£000	£000
<b>Assets</b>						
Available-for-sale financial assets	-	3,083	3,083	-	2,700	2,700
Trade and other receivables	20,196	-	20,196	16,168	-	16,168
Cash and cash equivalents	37,845	-	37,845	31,500	-	31,500
<b>Total</b>	<b>58,041</b>	<b>3,083</b>	<b>61,124</b>	<b>47,668</b>	<b>2,700</b>	<b>50,368</b>

## 9 (b) - Financial instruments by category - continued

	Liabilities at fair value through the profit and loss			Liabilities at fair value through the profit and loss		
	£000	Other financial liabilities £000	2017-18 Total £000	£000	Other financial liabilities £000	2016-17 Total £000
<b>Liabilities</b>						
Finance lease liabilities	-	102	102	-	248	248
Trade and other payables excluding statutory liabilities	-	11,144	11,144	-	8,237	8,237
<b>Total</b>	-	<b>11,246</b>	<b>11,246</b>	-	<b>8,485</b>	<b>8,485</b>

## 9 (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 11 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.

## 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.

## 9 (c) - Exposure to risk - continued

2017/18	Less than 1 year	Between 1 and 5 years	Over 5 years
	£000	£000	£000
Finance lease liabilities	45	55	-
Trade and other payables excluding statutory liabilities	11,144	-	-
<b>Total</b>	<b>11,189</b>	<b>55</b>	<b>-</b>

2016/17	Less than 1 year	Between 1 and 5 years	Over 5 years
	£000	£000	£000
Finance lease liabilities	73	77	98
Trade and other payables excluding statutory liabilities	8,237	-	-
<b>Total</b>	<b>8,310</b>	<b>77</b>	<b>98</b>

## 9 (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.

## 9 (e) - Fair value estimation

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

## NOTE 10 INVENTORIES

	2017/18	2016/17
	£000	£000
Timber	5,208	4,285
Consumable materials, supplies and livestock	396	263
	<b>5,604</b>	<b>4,548</b>

## NOTE 11 TRADE AND OTHER RECEIVABLES

### 11(a) - Analysis by type

	<b>2017/18</b>	<b>2016/17</b>
	£000	£000
<b>Current</b>		
Trade receivables	17,397	14,414
Less provision for impairment of trade receivables	(258)	(268)
Trade receivables - net	<u>17,139</u>	<u>14,146</u>
Other receivables	1,139	411
Partnership loan	-	-
Partnership lease	80	77
House purchase loans to employees	8	8
Prepayments and accrued income	5,876	5,525
<b>Total current receivables</b>	<b><u>24,242</u></b>	<b><u>20,167</u></b>
<b>Non current</b>		
Partnership loan	-	311
Partnership lease	1,818	1,201
House purchase loans to employees	12	14
Prepayments and accrued income	-	-
<b>Total non-current receivables</b>	<b><u>1,830</u></b>	<b><u>1,526</u></b>
<b>Total receivables</b>	<b><u>26,072</u></b>	<b><u>21,693</u></b>

The Advances of Salary for House Purchase scheme had loans with an outstanding balance of £2,500 or more relating to 4 members of staff at 31 March 2018 (2016/17: 4 employees).

The total outstanding value of all loans was £20k (2016/17: £22k). 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 2018, trade receivables of £11,911 (2016/17: £13,034k) were fully performing and not past due or impaired and provided for.

As of 31 March 2018, trade receivables of £5,150k (2016/17: £2,299k) 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:

	<b>2017/18</b>	<b>2016/17</b>
	£000	£000
Less than one month		702
One to two months	3,053	843
More than two months	2,097	754
	<b>5,150</b>	<b>2,299</b>

As of 31 March 2018, trade receivables totalling £258k were impaired and also provided for. These relate to 7 debts (2016/17 3 debts) analysed as follows:

	<b>2017/18</b>	<b>2016/17</b>
	£000	£000
Advanced legal proceedings underway		
Other	258	268
	<b>258</b>	<b>268</b>

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

	<b>2017/18</b>	<b>2016/17</b>
	£000	£000
Less than one month		-
One to two months		-
More than two months	258	268
	<b>258</b>	<b>268</b>

## 11(a) - Analysis by type - continued

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

	£000
<b>At 1 April 2016</b>	<b>358</b>
New provisions	15
Provisions utilised	-
Unused provision reversed	(105)
<b>At 1 April 2017</b>	<b>268</b>
New provisions	5
Provisions utilised	(15)
Unused provision reversed	
<b>At 1 April 2018</b>	<b>258</b>

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 above are all denominated in GBP Sterling.

## 11(b) Intra-Government Receivables Balances

	Current		Non current	
	2017/18	2016/17	2017/18	2016/17
	£000	£000	£000	£000
Balances with other central government bodies	1,697	623	-	-
Balances with local authorities	-	1	-	-
Balances with public corporations and trading funds	3	10	-	-
Intra-government balances	1,700	634	-	-
Balances with bodies external to government	22,542	19,533	1,830	1,526
<b>Total trade and other receivables</b>	<b>24,242</b>	<b>20,167</b>	<b>1,830</b>	<b>1,526</b>

## NOTE 12 CASH AND CASH EQUIVALENTS

	<u>2017/18</u>	<u>2016/17</u>
	£000	£000
<b>Balance at 1 April</b>	<b>31,500</b>	<b>19,656</b>
Net change in cash and cash equivalent balances	6,345	11,844
<b>Balance at 31 March</b>	<b>37,845</b>	<b>31,500</b>

All balances held are denominated in GBP Sterling.

## NOTE 13 TRADE AND OTHER PAYABLES

### 13(a) - Analysis by type

	<u>2017/18</u>	<u>2016/17</u>
	£000	£000
<b>Current</b>		
Trade payables	7,613	5,880
Other payables	44	(33)
Taxation and social security costs	88	76
Accruals and deferred income	6,032	4,149
Current part of finance leases	45	73
<b>Total current payables</b>	<b>13,822</b>	<b>10,145</b>
<b>Non current</b>		
Other payables	-	-
Accruals and deferred income	1,750	1,750
Finance Leases	57	175
<b>Total non-current payables</b>	<b>1,807</b>	<b>1,925</b>
<b>Total payables</b>	<b>15,629</b>	<b>12,070</b>

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

## 13(b) - Intra-Government Balances

	Current		Non current	
	2017/18	2016/17	2017/18	2016/17
	£000	£000	£000	£000
Balances with other central government bodies	109	189	-	-
Balances with local authorities	134	-	-	-
Balances with public corporations and trading funds	-	-	-	-
Intra-government balances	243	189	-	-
Balances with bodies external to government	13,579	9,956	1,807	1,925
<b>Total trade and other payables</b>	<b>13,822</b>	<b>10,145</b>	<b>1,807</b>	<b>1,925</b>

## NOTE 14 PROVISIONS FOR LIABILITIES AND CHARGES

	Early Departure	Legal Claims	Other Legal	Total
	Costs	Legal Claims	Claims	Total
	£000	£000	£000	£000
<b>At 1 April 2016</b>	<b>262</b>	<b>62</b>	-	<b>324</b>
Provided in year	4	153	-	157
Provisions not required written back	-	-	-	-
Utilised in year	(103)	(1)	-	(104)
Unwinding of discount	10	-	-	10
<b>At 1 April 2017</b>	<b>173</b>	<b>214</b>	-	<b>387</b>
Provided in year	1,019	2,890	-	3,909
Provisions not required written back	(1)	(27)	-	(28)
Utilised in year	(320)	(42)	-	(362)
Unwinding of discount	30	-	-	30
<b>At 31 March 2018</b>	<b>901</b>	<b>3,035</b>	-	<b>3,936</b>

Analysis of expected timing of discounted cash flows for balance at 31 March 2018:-

	Early Departure		Total
	Costs	Legal Claims	
	£000	£000	£000
Within one year	223	444	<b>667</b>
Between 1 April 2019 and 31 March 2023	678	2,591	<b>3,269</b>
Between 1 April 2023 and thereafter	-	-	-
<b>Utilised in year</b>	<b>901</b>	<b>3,035</b>	<b>3,936</b>

## 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. Within the early departure costs are FES's share for the restructuring costs of shared services due to devolution of the Forestry Commission.

## 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 15 SEGMENTAL REPORTING

Segmental reporting is currently reported within FCS as per the headings in the Statement of Comprehensive Net Expenditure. Future portfolio objectives are under review and may be applied in future years

## NOTE 16 CAPITAL COMMITMENTS

Amounts contracted for but not provided in the accounts amounted to £66K at 31 March 2018 (2016/17: £Nil).

## NOTE 17 COMMITMENTS UNDER LEASES

### 17(a) - Operating leases

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

	<u>2017/18</u>	<u>2016/17</u>
	£000	£000
<b>Obligations under operating leases for the following periods comprise:</b>		
<b>Buildings</b>		
Not later than one year	133	100
Later than one year and not later than five years	348	250
More than five years	257	411
	<u>738</u>	<u>761</u>
	<u>2017/18</u>	<u>2016/17</u>
	£000	£000
<b>Land</b>		
Not later than one year	60	60
Later than one year and not later than five years	201	232
More than five years	689	715
	<u>950</u>	<u>1,007</u>
	<u>2017/18</u>	<u>2016/17</u>
	£000	£000
<b>Plant and Machinery</b>		
Not later than one year	276	294
Later than one year and not later than five years	274	191
More than five years	-	-
	<u>550</u>	<u>485</u>

## 17(b) - Finance leases

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

	<u>2017/18</u>	<u>2016/17</u>
	£000	£000
<b>Obligations under finance leases for the following periods comprise:</b>		
<b>Buildings</b>		
Not later than one year	-	4
Later than one year and not later than five years	-	15
More than five years	-	145
	-	164
Less interest element	-	(58)
	-	<b>106</b>
<b>Plant and Machinery</b>		
Not later than one year	45	75
Later than one year and not later than five years	57	73
More than five years	-	-
	102	148
Less: interest element	(4)	(6)
<b>Present value of obligations</b>	<b>98</b>	<b>142</b>

## NOTE 18 OTHER FINANCIAL COMMITMENTS

There no other financial commitments as at 31 March 2018 (2016/17: £nil).

## NOTE 19 LEASE RECEIVABLES

### 19(a) - Operating leases

The future minimum lease payments receivable under non-cancellable operating leases are as follows:

	<b>2017/18</b>	<b>2016/17</b>
	£000	£000
Not later than one year	7,426	6,904
Later than one year and not later than five years	18,810	24,197
More than five years	108,065	114,881
	<b>134,301</b>	<b>145,982</b>

Forest Enterprise Scotland leases land and buildings under agreements that terminate between April 2017 and December 2099.

### 19(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:

#### (b) Finance Leases: (Forest Holidays buildings)

	<b>2017/18</b>	<b>2016/17</b>
	£000	£000
Less than one year	80	77
Later than one year and not later than five years	319	308
More than five years	5,178	5,229
	<b>5,577</b>	<b>5,614</b>
Less: interest element	(3,679)	(4,335)
<b>Present value of receivables</b>	<b>1,898</b>	<b>1,279</b>

## NOTE 20 CONTINGENT LIABILITIES

### Galloway FD Opencast

Over the past year the restoration of Dunstonhill and Netherton have been completed with the Dunstonhill Restoration Services Agreement fully discharged. In respect of Netherton, the approved restoration plan was extended by East Ayrshire Council (EAC) to assist with the restoration of the Skares void on disclaimed land. That said all works at Netherton have now been completed apart from a limited area associated with Skares void and we expect the full completion and discharging of the restoration plan early in 18/19 FY.

The Chalmerston restoration plan has been agreed with EAC with the draft Restoration Services Agreement expected to be finalised in QTR 1 18/19 FY. Thereafter a Positive Enforcement notice will be issued with the contract for restoration, managed by EAC utilising a combined bond from FES (£1.7m) and EAC (£2.6m).

As a result of the above as at 31 March 2018 FES's contingent liability for Galloway FD Former Opencast Sites can be stated as £2.9m. This is reduced from £17.4m as stated 31 March 2017 to reflect completed works to date and the agreement in principle with EAC to a practical land form and safety oriented restoration plan for the remaining area. This sum includes £0.3m potential cost associated with the future restoration of the North Kyle Haul Route. In addition FES will make an accrual in the year end accounts of £1.7m to reflect the element of the outstanding restoration work to be funded from FES's bond monies.

### Accidents, damages to properties and employers liability claims

Estimated costs relating to accidents, damages to properties and liability claims are estimated to be £Nil (£35,000 at 31 March 2017).

Legal advice indicates that some claims can be successfully resisted and that no damages are likely to be awarded.

## NOTE 21 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.

### 21(a) - Sales and Purchases of goods and services

The value of purchases from Forest Enterprise Scotland in the year to 31 March 2018 was:

	<b>2017/18</b>	<b>2016/17</b>
	£000	£000
Tillhill Forestry Ltd	7,203	7,527
Lantra	-	2
	<b>7,203</b>	<b>7,529</b>

The value of sales to Forest Enterprise Scotland in the year to 31 March 2018 was:

	<b>2017/18</b>	<b>2016/17</b>
	£000	£000
Tillhill Forestry Ltd	479	-
Community Woodlands Association	2	-
	<b>481</b>	<b>-</b>

## 21(b) - Year end balances arising from sale and purchase of goods and services:

Amounts owing to Forest Enterprise Scotland at 31 March 2018 were:

	<b>2017/18</b>	<b>2016/17</b>
	£000	£000
Tillhill Forestry Ltd	879	1,878

Amounts owing from Forest Enterprise Scotland at 31 March 2018 were:

	<b>2017/18</b>	<b>2016/17</b>
	£000	£000
Tillhill Forestry Ltd	112	-

The above transactions for timber sale and capital works, civil engineering and forest management services purchases occurred on an arms-length basis and are disclosed because:-

- George McRobbie, a non-executive Forestry Commissioner, is a Director of Tillhill Forestry Ltd.
- Henry Graham, a non-executive committee member, is a Director of Lantra U.K.
- Jonathan Hollingdale a non-executive committee member, is a Director of Community Woodland Enterprise, a subsidiary of Community Woodlands Association (CWA) and an employee of CWA.

## 21(c) - Other

Michael Ansell, Head of Forest Renewables received a Grant payment through the Forestry Grant Scheme for £2,321 (2016/17 - £2,321).

## 21(d) Key management compensation

Refer to the Remuneration Report for further details of the remuneration of Board members.

## 21(e) Loans to related parties

Other than the loans stated in the Remuneration Report, there were no other loans made to related parties during the year.

## NOTE 22 THIRD PARTY ASSETS

Forestry Enterprise Scotland rents land in Lael Forest, Garrygualach, Lochaber, Galloway and Inverness to Npower Renewables Ltd, Nevis Range Development Co PLC, Blue Energy and Newbie Salmon Fisheries for use in its hydro-electric and wind farm business.

As part of the rental agreements, Npower Renewables Ltd, Nevis Range Development Co PLC, Blue Energy and Newbie Salmon Fisheries 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, Nevis Range Development Co Ltd, Blue Energy, or Newbie Salmon Fisheries 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.

	<b>2016/17</b>			<b>2017/18</b>
	<b>Closing</b>	<b>Gross</b>	<b>Gross</b>	<b>Closing</b>
	<b>Balance</b>	<b>Inflows</b>	<b>Outflows</b>	<b>Balance</b>
	£000	£000	£000	£000
Lael	10	-	-	10
Nevis Range	5	-	-	5
Garrygualach	5	-	-	5
Blackcraig Windfarm	400	-	-	400
Farr Hydro	23	-	-	23
Kilgallioch Windfarm	1,000	1	-	1,001
Allt Druidhe Hydro	6	-	-	6
<b>Total</b>	<b>1,449</b>	<b>1</b>	<b>-</b>	<b>1,450</b>

As these balances are held for third parties they are not included in the primary financial statements of Forest Enterprise Scotland.

## **NOTE 23    EVENTS    AFTER    THE    REPORTING PERIOD**

There were no significant events occurring after the year-end, which materially impacted the 2017-18 annual report and accounts.

In March 2018, the Forestry and Land Management (Scotland) Bill completed its final parliamentary stage and was passed unanimously by MSPs. The Bill provides a modern legislative framework to develop, support and regulate forestry in Scotland, including a requirement for a Scottish forestry strategy and a duty to promote sustainable forest management. The Bill received Royal Assent on 1st May 2018.



## 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.
4. 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

**SG2018/148**