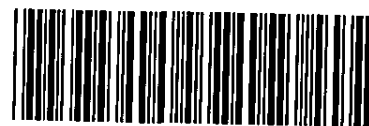


THE NATIONAL FOREST COMPANY  
REPORT AND FINANCIAL STATEMENTS

31 March 2008

Registered number 2991970

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# THE NATIONAL FOREST COMPANY

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# THE NATIONAL FOREST COMPANY

## COMPANY INFORMATION

Registered number 2991970

<b>Directors</b>	Dinah Nichols	(Chair) re-appointed 1 April 2008
	Sophie Churchill	(Chief Executive/Accounting Officer)
	Russ Canning	(non executive) re-appointed 1 April 2008
	Martin Glynn	(non executive)
	Oliver Johnson	(non executive)
	Valerie Le Vaillant	(non executive) re-appointed 1 April 2008
	Robin Pellew	(non executive) appointed 1 April 2007
	Susan Warren	(non executive) appointed 1 April 2007
	Judith Webb	(non executive) appointed 1 August 2007
Peter Webster	(non executive) resigned 30 June 2007*	

\* Resigned on the grounds of ill health

**Secretary** Mike Dewsnap

**Registered office** Enterprise Glade  
Bath Yard  
Moirs  
Swadlincote  
Derbyshire  
DE12 6BA

**Auditors** Grant Thornton UK LLP  
2 Broadfield Court  
Sheffield  
S8 0XF

**Bankers** The Co-operative Bank  
South Yorkshire Business Centre  
The Fountain Precinct  
Balm Green  
Sheffield  
S1 2JZ

# THE NATIONAL FOREST COMPANY

## REPORT OF THE DIRECTORS

31 March 2008

The Directors present their report and the audited financial statements for the year ended 31 March 2008.

### Principal activities

The Company is a company limited by guarantee, established on 1 April 1995, as a Non-Departmental Public Body funded by the Department for Environment, Food and Rural Affairs (Defra). Its remit is to oversee the implementation of the Government approved Forest Strategy for the creation of The National Forest located in the English Midlands.

### Funding

Grant in aid is paid to the Company under Section 153 of the Environmental Protection Act 1990. In 2007/08 grant in aid was originally set at £3.7 million but in-year reductions across the Defra family resulted in the Company's allocation being reduced to £3.35 million.

Following the Comprehensive Spending Review, it has been confirmed that grant in aid for 2008/09 will be £3.6 million.

### Business review and future developments

The NFC Board agreed key objectives and targets for 2007/08 which were set out in the Corporate Plan approved by Defra. These were consistent with the delivery of the Forest Strategy 2004 – 2014. As a consequence of the in-year reduction to grant in aid, the NFC Board and Defra agreed reduced targets for Forest creation and nature conservation sites

A summary of activity during the year compared with the objectives and targets as set out in the Corporate Plan is as follows:

#### Key objective 1 – Forest creation

In the absence of a main grant programme and at a time of rising commodity and land prices it has been a challenging year for Forest creation. It was also a transitional year with no National Forest Tender Scheme\* following its closure to new applicants and a year that saw the development of proposals for a successor scheme that was eventually approved by the European Commission in April 2008. The new Changing Landscapes Scheme (CLS), to be launched in June 2008, will be operable from the 2008/09 planting season. In the circumstances, the Company sought to proactively pursue land acquisition opportunities and introduced various small scale planting schemes.

\* The National Forest Tender Scheme was a unique woodland incentive operated by the NFC in partnership with the Forestry Commission (FC).

#### Activity included:

- securing 119ha of new Forest creation (Target range 185 – 190ha) of which 52ha came via land acquisitions and 30ha through mineral and derelict land restoration. This brings woodland cover across the Forest to 8,914ha which represents 17.8% of the area, over half of the eventual target of around one third. In addition, the Company purchased 80ha towards a country park in the heart of the Forest, an acquisition that was supported by emda as a contribution to Leicestershire's green infrastructure;

# THE NATIONAL FOREST COMPANY

## REPORT OF THE DIRECTORS (continued)

31 March 2008

### Business review and future developments (continued)

- the three county wildlife trusts responding to a “habitats challenge” and delivering sustainable heathland management and new wetland;
- instigating appropriate management of 39ha of nature conservation sites, largely due to a high level scheme designation on the Calke Abbey estate (target 35ha); and
- the planting of over 1,500 metres of hedges

### Key objective 2 – Forest quality and sustainable management

#### Activity included:

- assisting 17 businesses with developing business and leadership skills (target 15) and 20 woodfuel feasibility studies were carried out (target 10);
- working with Leicestershire County Council on the organising of the third National Forest Wood Fair that attracted 77 exhibitors (target 65) and attracting c.3,000 visitors, a 15% increase on the previous year;
- commissioning research projects to determine deer prevalence within the Forest and to assess damage caused by grey squirrels, the results of which will inform action plans to be devised and shared with landowners in 2008/09; and
- commenting upon 43 planning and other policy related documents

### Key objective 3 – Access, participation, learning and sustainable tourism

#### Activity included:

- completing on time and to budget, the emda funded Visitor Infrastructure Project in the East Midlands part of the Forest. It has been confirmed that Advantage West Midlands is to provide funding to extend the project into the West Midlands part of the Forest in 2008/09;
- securing funding for a major new multi-user trail in the heart of the Forest, work on which is underway, and an options appraisal for a long distance trail;
- securing 261ha of new and/or planned public access on new and existing sites (target 200ha);
- the opening of the new National Forest Youth Hostel and Camping and Caravanning Club site;
- more than 38,000 children participating in environmental education sessions in the Forest (target 33,000);
- over 21,000 people participating in Forest related events e.g. tree planting, community festivals and conservation volunteering (target 13,000) and
- implementing the fourth year's action plan associated with the Tourism Strategy 2004 – 2009 which has included working with local authority partners on the production, promotion and distribution of visitor guides for “The National Forest & Beyond” area.

# THE NATIONAL FOREST COMPANY

## REPORT OF THE DIRECTORS (continued)

31 March 2008

### Business review and future developments (continued)

#### Key objective 4 – Organisation and strategy

##### Activity included:

- resolving State Aid issues and securing approval of the CIS;
- preparing for the mid-term review of the Forest Strategy 2004-2014, in the context of the outcome of the Comprehensive Spending Review;
- finalising and launching “The National Forest – an exemplar of sustainable development” with one of the case studies cited forming the basis for the winning entry to the inaugural SD UK Award for Sustainability;
- leading on a National Forest LEADER bid (an EU Rural Development Programme) which, despite being unsuccessful, provided a platform for good partnership working that generated many ideas particularly in relation to woodland economy and sustainable tourism which it may be possible to progress in 2008/09;
- further engaging with businesses, particularly those seeking to meet carbon and climate change agendas, that resulted in c.£65,000 of sponsorship income
- working with other forestry organisations to respond to Government on voluntary carbon offsetting and supporting the FC’s work on climate change; and
- implementing the first year’s action plan associated with the Board approved Marketing and Communications Strategy 2007 – 2010.

A summary of the main achievements during the last five years is shown on page 7.

Looking ahead to 2008/09 the NFC Board has once again agreed key objectives and targets that reflect the ongoing creation of the Forest and the maintenance and development of a high quality sustainable forest. The year will see the completion of the mid term review of the Forest Strategy 2004 – 2014, arising from which will be a delivery plan that will shape activity for the period through to 2014.

#### **Land Acquisition and Disposal**

The Company is permitted to acquire land in accordance with its Land Acquisition Policy agreed with Defra, where it will secure significant National Forest objectives and represents good value for money. Following acquisition by the NFC, it is normal practice for the freehold ownership of sites to be transferred to partner organisations as soon as possible after purchase, subject to guarantees that the land will be developed and managed for specified Forest purposes. Where Forest Enterprise (FE) is the preferred partner an expedited procedure is followed to enable an early transfer of the freehold of the land to FE. In such cases the freehold in the land will be vested in the Secretary of State and ‘placed at the disposal of the Forestry Commissioners’.

It is, in accordance with the Land Acquisition Policy, possible for the NFC to hold land up to a maximum of 300ha at any time. After allowing for acquisitions and disposals completed during the year, the Company held 124.9ha of land as at 31 March 2008 (2007: 113.6ha).

# THE NATIONAL FOREST COMPANY

## REPORT OF THE DIRECTORS (continued)

31 March 2008

### Research and Development

The NFC spent £100,469 (2007: £38,615) on research during the year. The main areas of activity during 2007/08 were:

- visitor experience and awareness research
- an options appraisal for a long distance trail;
- state of the Forest reports assessing the damage caused by grey squirrels and the prevalence of deer;
- producing 'The National Forest – an exemplar of Sustainable Development' publication;
- further developing the Geographical Information System (GIS) landscape visualisation capabilities.

### Losses, special payments and gifts

The Company did not write off any losses or make any special payments or gifts during the year.

### Payment of Creditors

The Company aims to pay all undisputed invoices within 30 days of the invoice date. No claims were received during the year from suppliers for late payment of invoices under The Late Payment of Commercial Debts (Interest) Act 1998.

### Freedom of Information Act 2000

The provisions of the Act came into force on 1 January 2005. The NFC has developed procedures to deal with requests for information that may be received. The Company continues to maintain its Publication Scheme which was approved by the Information Commissioner.

### Consultation with Employees

The Company's pay and grading arrangements applied throughout the year were analogous to those of its sponsor Department. No consultation was therefore required with staff as regards the annual salary review on 1 July 2007. The salary review negotiated within the sponsor Department was applied to all Company staff at grade 7 and below. The Company consults with all staff on operational matters and in the formulation of policy and targets

### Equal Opportunities

The Company is an equal opportunities employer. It is committed to a policy of non-discrimination on grounds of sex or marital status, sexual orientation, health (including pregnancy), disability, colour, race, nationality or ethnic or national origin. Staff are required to observe this policy of non-discrimination in their dealings with members of the public and colleagues at work. All new staff are appointed on the basis of ability, qualification and suitability for the post.

### Disability Equality Scheme

In accordance with its duties under the Disability Discrimination Acts 1995 and 2005, the NFC has produced a Disability Equality Scheme Policy Statement and associated action plan. Both are publicly available via the Forest website.

**THE NATIONAL FOREST COMPANY**  
**REPORT OF THE DIRECTORS (continued)**

31 March 2008

**Results and dividends**

The deficit for the year before accounting for the receipt of revenue grant in aid amounted to £2,672,762 (2007: deficit of £3,129,370).

**Fixed Assets**

The movement in the tangible fixed assets account is set out in note 10 to the Financial Statements. In the opinion of the Directors there is no significant difference between the carrying value and the value in the market in which the Company is able to selland.

**Directors**

The Directors of the Company as at 31 March 2008 are set out on page 1. Their appointment dates are set out below:

Date of appointment

R Canning	1 April 2005
S Churchill	1 February 2006
M Glynn	1 April 2004
O Johnson	1 April 2004
D Nichols	1 April 2005
V Le Vaillant	1 April 2005
R Pellew	1 April 2007
S Warren	1 April 2007
J Webb	1 August 2007

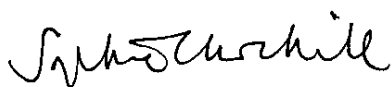
**Auditors**

Bentley Jennison were engaged to provide an internal audit service to the NFC during the 2007/08 financial year. Grant Thornton UK LLP were appointed as external auditors for the 2007/08 financial year.

Grant Thornton UK LLP, having expressed their willingness to continue in office, will go forward for reappointment as external auditors for 2008/09 at the Company's Annual General Meeting in accordance with Section 487(2) of the Companies Act 2006, unless the Company receives notice under Section 488(1) of the Companies Act 2006.

**Website**

The Annual Report and Accounts will be made available on the National Forest website [www.nationalforest.org](http://www.nationalforest.org)



Sophie Churchill  
Chief Executive/Accounting Officer



Mike Dewsnap  
Secretary

15 July 2008



# THE NATIONAL FOREST COMPANY

## REPORT OF THE DIRECTORS (continued)

31 March 2008

### National Forest - Summary of main achievements during the five years 2003/2004 to 2007/2008

	2003/04	2004/05	2005/06	2006/07	2007/08
New Forest creation					
Target	450ha	350-400ha	440-475ha	340-360ha	185-190ha
Outturn	450ha	394ha	413ha	351ha	119ha
Public access					
New full open access sites					
Target	400ha	400ha	420ha	325ha	200ha
Outturn	498ha	448ha	457ha	387ha	261ha
Nature conservation and cultural heritage habitat created or brought into management					
Target	300ha	130ha	130ha	100ha	35ha
Outturn	344ha	130ha	125ha	100ha	39ha
Number of people involved in Forest related activities					
Target	12,000	12,000	12,000	12,000	13,000
Outturn	11,600	12,300	13,400	20,600	21,000

# THE NATIONAL FOREST COMPANY

## REMUNERATION REPORT

The NFC Board has agreed that it is not necessary for the Company to have a Remuneration Committee.

### Remuneration of Non-Executive Board Members

Non-Executive Directors are appointed by the NFC following approval of their appointment by the Minister within the Department for Environment, Food and Rural Affairs (Defra) responsible for the Company. Appointments are made in accordance with guidance issued by the Commissioner for Public Appointments. Directors are appointed for a three year term of office and may be re-appointed for a further period of up to three years.

Remuneration of Directors is tied with rates determined by Defra. These are subject to annual review on 1 April with increases being in accordance with the recommendations of the Senior Salary Review Body, the organisation within Defra responsible for recommending future pay increases for Chairmen and Board Members. The increase effective from 1 April 2007 was set at 2.6%.

The NFC Chair, Dinah Nichols, is remunerated on the basis of working an average of one day per week. The seven non-executive Directors are remunerated on the basis of working an average of one day per month.

The remuneration and other taxable benefits paid to Directors during 2007/08 are set out in note 8 to the Financial Statements on pages 23 and 24.

### Remuneration of the Chief Executive

The Chief Executive is the only executive Director of the NFC and the only Director eligible for membership of the Civil Service Pension Scheme (PCSPS).

The Chief Executive, Sophie Churchill, was appointed for a term of five years commencing on 1 February 2006 and expiring on 31 January 2011, unless terminated earlier by either party. The appointment was subject to the approval of Defra that conferred Accounting Officer status on her. The salary for the post falls within the range for a Grade 5 within Defra's grading structure. The salary payable is reviewed on 1 April each year. In addition to her salary, the Chief Executive is entitled to a nonconsolidated, non-pensionable performance related bonus of up to 10% of annual salary. This is determined by reference to the extent to which predetermined objectives and targets as contained in a job plan agreed between the Chief Executive and Chair have been achieved. The objectives and targets are predominantly those set out in the Corporate Plan agreed between the Company and Defra. The level of bonus payable is determined by the Chair, after consultation with fellow Directors. The recommendation is agreed with Defra.

Details of the Chief Executive's remuneration, performance related bonus and benefits accruing to her under the PCSPS are set out in note 8 to the Financial Statements on page 24. Information on the pension scheme is contained in the Accounting Policies on pages 20 and 21.

### Remuneration of the Executive

All staff below the level of Chief Executive are employed in substantive posts, subject to the satisfactory completion of a probationary period. The terms and conditions of NFC staff mirror those of staff employed within Defra. The terms of the annual pay review, effective from 1 July, applying to staff in the Department are applied to staff employed by the NFC.

Within the organisation structure, immediately below the Chief Executive post, are three Chief Officer posts. These are at Grade 7 within the Defra grading structure. The NFC Board, upon the recommendation of the Audit Committee, has agreed that it is not necessary for salary and pension information in respect of these senior officers to be disclosed in the Remuneration Report.



Sophie Churchill  
Chief Executive/Accounting Officer

THE NATIONAL FOREST COMPANY  
STATEMENT OF DIRECTORS' RESPONSIBILITIES

31 March 2008

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice). The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the surplus or deficit of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable United Kingdom Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

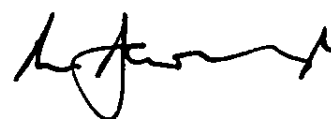
The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

In so far as the Directors are aware:

- there is no relevant audit information of which the Company's auditors are unaware; and
- the Directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of the information.

By order of the Board



Mike Dewsnap

Secretary

15 July 2008

# THE NATIONAL FOREST COMPANY

## STATEMENT ON INTERNAL CONTROL

### Scope of responsibility

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of Company policies, aims and objectives, whilst safeguarding the public funds and Company assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Managing Public Money.

### Company mission

The Company's mission is to oversee the creation of The National Forest, a 200 square mile multi-purpose forest in the Heart of England. This is being achieved primarily through partnership working and by utilising grant in aid provided by Defra, the Company's sponsor Department.

### The risk and control framework

#### Project and Programme Management

Partnership working is the means by which the National Forest Company (NFC) achieves many of its aims and objectives. This is particularly the case with major Forest-related projects where the NFC can play the role of either the lead or a secondary partner. This illustrated by the Visitor Infrastructure Project for which over £600,000 was secured from emda towards the overall project costs of £860,000. The NFC was the lead partner, responsible for establishing and servicing a project steering group, engaging and managing external project management services and for submitting funding claims and project update reports to emda. The project was successfully completed by the agreed March 2008 end date and costs were inline with the approved budget.

The NFC played the role of a secondary partner on the project that saw the construction of a new youth hostel in The National Forest which was opened in late 2007. The project was led by the Heart of the National Forest Foundation which was responsible for awarding and managing contracts. A steering group, which included representation from the NFC, was established to oversee project management. The NFC played a key role in instigating the project and contributed both financially and via significant staff time towards the successful completion of this major initiative.

#### Strategy and planning

The activities of the Company, as reflected in its annual Corporate Plan, are geared towards the delivery of objectives as set out in the National Forest Strategy 2004 - 2014. At the time of producing and launching the Strategy it was agreed that there would be a review of it at its mid-point in 2008/09. During 2007/08 the reviews aims, process and parameters have been agreed by the NFC Board; the audit of progress to date against Strategy targets is nearing completion; and meetings to secure the engagement of key partners have been held. During 2008/09 there will be wide ranging consultation on the Strategy, with the review culminating with the production of a delivery plan for the period 2009 - 2014 that will be launched at a Forest Forum in March 2009.

The Corporate Plan produced each year reviews progress against objectives and targets as detailed in the previous year's Corporate Plan and sets out objectives and targets for the next three years which are consistent with implementation of the Forest Strategy. The Corporate Plan is agreed by the NFC Board and is subsequently approved by Defra. It is usually the subject of an annual meeting with the Minister. Regular update reports on progress against the Plan's objectives and targets are given to the NFC Board. This highlights where aims are expected to be achieved and draws attention to potential shortfalls.

To support the delivery of Forest Strategy objectives and targets, the Company produces other strategies and associated annual action plans. In recent years, three year strategies have been approved by the NFC Board covering 'Partnerships and Funding' and 'Marketing & Communications'. In 2008/09, following the appointment of a Head of Fundraising, a Fundraising Strategy will be developed and an action plan produced.

# THE NATIONAL FOREST COMPANY

## STATEMENT ON INTERNAL CONTROL (continued)

### Corporate governance

I am the Company's only executive Director, joined on the Board by the Chair and seven non-executive Directors who are appointed by the Company subject to the approval of Defra. The Board met five times during 2007/08 with agendas covering strategic and operational matters.

Directors are expected to comply with a 'Code of Conduct for Directors of the National Forest Company'. Included within induction material supplied to new Directors is information on the agreed role and responsibilities of the Board. A standing item on the agenda for Board meetings is 'Declaration of Interests' when Directors declare any interest they may have in the business being considered. A Register of Directors' Interests is maintained, a summary of which is included in the Annual Report.

A key committee of the Board is the Audit Committee which comprises three non-executive Directors. As Accounting Officer, I attend meetings of the Committee. The Chairman of the Audit Committee gives an annual report to the Board concerning internal control and in addition regular reports are provided by managers on action taken to manage risks in their areas of responsibility including progress reports on key projects. The Committee met three times during the year ended 31 March 2008.

There are currently three other committees of the Board, all chaired by non-executive Directors. These are the Land Acquisition Group, Corporate Affairs Group and the Strategic Marketing and Communications Group. These committees meet regularly, usually averaging around four meetings a year. In addition there are five themed working groups, Access & Recreation, Tourism, Planning, Nature Conservation and Woodland Economy which are chaired by non-executive Directors and where membership comprises representatives from partner organisations. These groups usually meet twice a year. The terms of reference of all committees and working groups are agreed by the NFC Board. Minutes of meetings are copied to all Directors for information.

During 2007/08 consideration was given to the contracts of the Chair and two non-executive Directors which expired on 31 March 2008. Taking into consideration their performance since appointed in 2005 and the skills mix required from the Board it was recommended to Defra that all three be re-appointed. The Minister agreed with the recommendation and they have all been reappointed for a further three year term of office.

### Management of change

The most valuable resource the NFC has is its employees. There is collective ownership of delivering Forest Strategy objectives and targets. Any changes to organisation goals or the means by which they are to be achieved are agreed with staff. There are good internal communications with fortnightly team meetings, section meetings and a regular flow of emails ensuring that important messages are communicated consistently to all staff. The open style of management within the Company encourages staff to express opinions and come forward with ideas. The importance of staff and reliance on key personnel features prominently in the NFC's Risk Register.

2007/08 has been a year of change for the Company. It has been the first year since the Company was established that there has been no Tender Scheme. The Scheme, which has accounted for nearly two thirds of new Forest creation, was suspended in 2006/07. In a year with no Tender Scheme, effort and resources have been directed to other means of Forest creation including significantly more land acquisition activity and the introduction of various new small-scale planting schemes. Alongside this the Company has been working closely with Defra to seek approval from the European Commission for a new Forest creation scheme. The range of new activity embarked upon during the year has involved many of the NFC staff with updates on progress being given at all Board meetings held.

# THE NATIONAL FOREST COMPANY

## STATEMENT ON INTERNAL CONTROL (continued)

### Performance management

The Corporate Plan sets out the key objectives and targets agreed for the year. Whilst I have overall responsibility for the achievement of these, they do fall into the annual job plans agreed with each member of staff. The delivery of targets and assessment of the individual's performance is monitored and assessed through the staff review system. An important part of the process is for an assessment to be made of the individual's ability to deliver against the job plan and identifies any training and development needs that need to be met. At the end of the year, an Annual Review is undertaken that includes an assessment of how the individual has performed over the year. A performance marking is awarded which is agreed between the postholder and line manager.

The National Forest is being created for public benefit and therefore the engagement and views of the general public are essential and welcomed. The Company has in place complaint handling procedures and arrangements for dealing with requests made under the Freedom of Information Act. During the year ended 31 March 2008, five complaints were received (compared with eleven in the previous year) and responded to within the specified timescale. Four of these related to sites in the Forest which are not owned by the NFC and were therefore referred to the landowners.

The delivery of Forest objectives is heavily dependent upon the engagement of partner organisations. Their views on the performance of the NFC are regularly sought. During the coming year partners will be consulted on key issues and priorities for the five years 2009 – 2014 as part of the Mid Strategy Review.

### Data handling

As Accounting Officer I am responsible for the handling of personal and sensitive information and managing the risks associated with this. The systems of control in place have been reviewed during the year and all staff have been reminded of their responsibilities and good practices when transferring data electronically or on removable media and of the need for safe disposal of classified waste.

### Risk strategy and risk management

The NFC's Risk Management Policy was first approved by the Company's Board in May 2003. The Policy is reviewed annually by the NFC Board and updated as appropriate. It was last reviewed in October 2007 when the Board agreed that the Policy remained appropriate and did not require amendment. In accordance with the Policy:

- the NFC Board has responsibility for overseeing risk management within the Company;
- the Audit Committee has responsibility for reviewing the systems of internal control;
- the Chief Executive, as Accounting Officer, has responsibility for ensuring that effective systems of control are maintained and operated; and
- the executive supports, advises and implements policies approved by the Board and is committed to adopting good risk management practice.

When reviewing the Risk Register in October 2007, the Board agreed that in future years it would concentrate its review on the 10/12 risks allocated the highest risk scores. Suggestions were also made in relation to the lay out of the Register and the means by which changes to the scoring of risks were highlighted. Directors were reassured to see that the top risks highlighted were the subject of regular reports to the Board.

Many of the top risks identified in the 2007/08 Register remained unchanged from those detailed in the previous register. These centred around pressures on grant in aid funding from Defra, availability of affordable land and the engagement of landowners and other public and private sector partners. In addition, the importance of securing a new Forest creation mechanism that was attractive to landowners was seen as critical if the rate of planting achieved in previous years was to be maintained.

The Audit Committee has an important role in reviewing the Register and in seeking assurance from the executive that actions have been taken and verifying that specified controls are in place to mitigate identified risks. Risk management is a regular item on the agenda for meetings of the Audit Committee.

# THE NATIONAL FOREST COMPANY

## STATEMENT ON INTERNAL CONTROL (continued)

### Risk strategy and risk management (continued)

Responsibility for the day-to-day administration of the risk management process is delegated to the Chief Officer Corporate Services who is the nominated Principal Finance Officer. A programme of planned maintenance is in place. Each year NFC officers meet to review the Risk Register with discussions informing the content of the new Register. On an ongoing basis, each risk is allocated to a leader officer who is responsible for ensuring that the plan of action specified to offset the risk is being implemented. In addition, it has been agreed that the various sub-committees of the Board and themed working groups referred to above have a role to play in monitoring implementation of action plans.

### Internal Control

The system of internal control is designed to manage risk to a reasonable level rather than eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of Company policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in the Company for the year ended 31 March 2008 and up to the date of approval of the Annual Report and Accounts and accords with Treasury guidance.

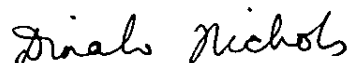
As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within the Company who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports. Internal audit services during the year ended 31 March 2008 were provided by RSM Bentley Jennison. The appointed external auditors for 2007/08 are Grant Thornton UK LLP. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Board, the Audit Committee and a plan to address weaknesses and ensure continuous improvement of the system in place.

The Company's internal auditors operate in accordance with Government Internal Audit Standards. An agreed programme of work was undertaken during 2007/08 that covered aspects of risk management and corporate governance, core financial systems, land acquisition, nature conservation and partnership working within the public sector. For each audit carried out the overall conclusion expressed by the auditors was that the control framework in place 'provides substantial assurance that risks material to the achievement of the organisation's objectives are adequately managed and controlled'. All work undertaken during the year informed the opinion expressed by the Internal Audit Manager in the Annual Internal Audit Report that the NFC 'has adequate and effective risk management, control and governance processes to manage the achievement of the organisation's objectives'. It was also the opinion of the Internal Audit Manager that no issues were highlighted that needed to be referred to in this Statement on Internal Control.



Sophie Churchill  
Chief Executive/Accounting Officer

Endorsed on behalf of the Board by:



Dinah Nichols  
Chair

# THE NATIONAL FOREST COMPANY

## REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF THE NATIONAL FOREST COMPANY

We have audited the financial statements of the National Forest Company for the year ended 31 March 2008 which comprise the income and expenditure account, the balance sheet, the cash flow statement and notes 1 to 18. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### Respective responsibilities of directors and auditor

The directors' responsibilities for preparing the annual report and the financial statements in accordance with United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view, whether they are properly prepared in accordance with the Companies Act 1985 and Treasury directions made thereunder and whether the information given in the Report of the Directors is consistent with the financial statements. We also report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the Report, and consider whether it is consistent with the audited financial statements. This other information comprises only the Report of the Directors and the remuneration statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

### Basis of opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.



## THE NATIONAL FOREST COMPANY

### REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF THE NATIONAL FOREST COMPANY *(continued)*

#### Opinion

In our opinion the:

- financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 March 2008 and of the result for the year then ended;
- financial statements have been properly prepared in accordance with the Companies Act 1985;
- information given in the Report of the Directors is consistent with the financial statements; and
- in all material respects the grant-in-aid income has been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Grant Thornton UK LLP  
Registered Auditors  
Chartered Accountants  
Sheffield

15 July 2008

# THE NATIONAL FOREST COMPANY

## INCOME AND EXPENDITURE ACCOUNT

for the year ended 31 March 2008

	Note	2008 £	2007 £
Income			
Other operating income	2	1,178,347	1,281,167
Expenditure			
Administrative expenses		(1,284,335)	(1,315,861)
Programme expenditure		(2,123,309)	(2,012,633)
Expenditure from donations and contributions received		(261,392)	(690,273)
Expenditure from reserves		(220,500)	(420,000)
Notional cost of capital	3	(58,624)	(36,667)
		<hr/>	<hr/>
Operating deficit	4	(2,769,813)	(3,194,267)
Interest receivable and similar income	5	48,034	34,852
		<hr/>	<hr/>
Deficit on ordinary activities before taxation		(2,721,779)	(3,159,415)
Tax on interest receivable	9	(9,607)	(6,622)
		<hr/>	<hr/>
Deficit on ordinary activities after taxation		(2,731,386)	(3,166,037)
Reversal of notional cost of capital	3	58,624	36,667
		<hr/>	<hr/>
Deficit for the year	14	(2,672,762)	(3,129,370)
Financing received as Grant in aid	6	2,944,274	3,368,581
Revenue reserve brought forward		490,782	251,571
		<hr/>	<hr/>
Revenue reserve carried forward	14	762,294	490,782
		<hr/>	<hr/>

All of the Company's activities are classed as continuing.

There were no recognised gains or losses in the year other than those included in the Income and Expenditure Account.

# THE NATIONAL FOREST COMPANY

## BALANCE SHEET

at 31 March 2008

	Note	2008		2007	
		£	£	£	£
Fixed assets					
Tangible assets	10		1,061,614		914,224
Current assets					
Debtors	11	189,401		455,523	
Cash at bank and in hand		<u>604,046</u>		<u>91,006</u>	
		793,447		546,529	
Creditors: amounts falling due within one year	12	<u>(39,990)</u>		<u>(69,083)</u>	
Net current assets			753,457		477,446
Total assets less current liabilities			1,815,071		1,391,670
Creditors: amounts falling due after more than one year	13		<u>(4,337)</u>		<u>(7,448)</u>
Net assets			<u>1,810,734</u>		<u>1,384,222</u>
Capital					
Revenue Reserve	14		762,294		490,782
Capital Reserve	14		<u>1,048,440</u>		<u>893,440</u>
			<u>1,810,734</u>		<u>1,384,222</u>

The financial statements were approved by the Board on 15 July 2008 and signed on its behalf by

*Dinah Nichols*

Dinah Nichols – Chair

*Sophie Churchill*

Sophie Churchill – Chief Executive/Accounting Officer

# THE NATIONAL FOREST COMPANY

## CASH FLOW STATEMENT

for the year ended 31 March 2008

	Note	2008 £	2007 £
Net cash outflow from operating activities	16	(2,221,920)	(3,727,544)
<i>Returns on investment and servicing of finance</i>			
Interest received		48,034	34,852
<i>Taxation</i>			
Corporation Tax paid		(6,622)	(9,182)
<i>Capital expenditure and financial investment</i>			
Payments to acquire tangible fixed assets		(405,726)	(451,419)
Proceeds from sale of tangible fixed assets		-	261,750
Movement on capital reserve		155,000	434,000
		<u>(250,726)</u>	<u>244,331</u>
<i>Financing</i>			
Grant in aid		2,944,274	3,368,581
		<u>2,944,274</u>	<u>3,368,581</u>
Increase in cash	17	<u>513,040</u>	<u>(88,962)</u>

# THE NATIONAL FOREST COMPANY

## NOTES ON FINANCIAL STATEMENTS

31 March 2008

### 1 Accounting policies

#### Basis of accounting

The financial statements are prepared in accordance with generally accepted accounting practice in the United Kingdom (UK GAAP) and the Companies Act requirements, the disclosure and accounting requirements contained in Government Accounting and in the Financial Reporting Manual (FReM), in so far as these are appropriate for the National Forest Company and are in force for the financial year for which the statements are prepared. The financial statements are prepared under the modified historical cost convention by the inclusion of fixed assets at their value to the business by reference to current costs.

#### Income

Grant in Aid received to finance activities and expenditure which support the statutory and other objectives of the entity is treated as financing, credited to the Revenue Reserve, because it is regarded as contributions from a controlling related party.

Grant relating to capital expenditure is credited either to deferred capital grant or the capital reserve depending on the nature of the spend. It is released to expenditure over the expected useful life of the asset.

Other operating income is analysed in Note 2 to the Financial Statements.

#### Tangible fixed assets and depreciation

Depreciation is provided evenly on the cost of tangible fixed assets, to write them down to their estimated residual values over their expected useful lives. The principal annual rates used for fixtures, fittings and computer equipment are based upon expected useful lives of between 3 and 9 years.

In accordance with the Land Acquisition Policy agreed with Defra, the NFC is permitted to own land. It should, however, at the time of acquisition or shortly thereafter, agree the means of disposal and should only in exceptional circumstances own any land for more than 10 years. When the exit strategy and eventual proceeds are agreed, the difference between the cost of the land and the eventual disposal consideration, where lower, is charged to depreciation over the period for which the land is to be held. Where land is acquired and as a result of a proposed change of use there is an impairment in the value of the land, the loss on impairment is charged to the Income and Expenditure Account in the year of the impairment. Where land is acquired which is retained but not depreciated, the cost of the land is credited to a Capital Reserve.

#### Capital Reserve

The Capital Reserve represents a deferred income account in respect of land.

#### Modified historical cost accounting

The tangible fixed assets held by the Company comprise land, fixtures and fittings and computer equipment. The effect of revaluing these assets on a modified historical cost basis, as specified in Treasury guidance, is not considered material. No adjustment has therefore been made. The Company reviews, on an annual basis, the effect of applying the principles of modified historical cost accounting.

#### Leased assets

Rentals payable under operating leases are charged to the Income and Expenditure Account as incurred.

# THE NATIONAL FOREST COMPANY

## NOTES ON FINANCIAL STATEMENTS (continued)

31 March 2008

### 1 Accounting policies (continued)

#### Research

Research expenditure is charged wholly against revenue in the year in which the expenditure was incurred.

#### Non controlling party grants

Grants used for revenue expenditure are credited to the Income and Expenditure Account in the same period as the expenditure to which they contribute.

#### Defined benefit pension scheme

The Company operates a defined benefit pension scheme as an admitted body under the Principal Civil Service Pension Scheme (PCSPS). This is an unfunded multi-employer defined benefit scheme. Contributions on a pay as you go basis are credited to the Exchequer under arrangements governed by the Superannuation Act 1972. The NFC is unable to identify its share of the underlying assets and liabilities of the Scheme. The scheme actuary valued the scheme as at 31 March 2007. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation ([www.civilservice-pensions.gov.uk](http://www.civilservice-pensions.gov.uk)).

For 2007/08, employer's contributions of £117,221 were payable to the PCSPS (2007: £115,557) at one of four rates in the range 17.1% to 25.5% of pensionable pay, based on salary bands (the rates are unchanged from those applied in 2006/07). The scheme's Actuary reviews employer contributions every four years following a full scheme valuation. From 2008/09, the salary bands will be revised but the rates will remain the same. (The rates will change with effect from April 2009). The contribution rates are set to meet the cost of the benefits accruing during 2007/08 to be paid when the member retires, and not the benefits paid during this period to existing pensioners.

Pension benefits are provided through the Civil Service pension arrangements. From 30 July 2007, civil servants may be in one of four defined benefit schemes; either a 'final salary' scheme (classic, premium or classic plus); or a 'whole career' scheme (nuvos). These statutory arrangements are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under classic, premium, classic plus and nuvos are increased annually in line with changes in the Retail Price Index (RPI). Members joining from October 2002 may opt for either the appropriate defined benefit arrangement or a good quality "money purchase" stakeholder pension with a significant employer contribution (*partnership pension account*).

Employee contributions are set at the rate of 1.5% of pensionable earnings for classic and 3.5% for premium, classic plus and nuvos. Benefits in classic accrue at the rate of 1/80<sup>th</sup> of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years' pension is payable on retirement. For premium, benefits accrue at the rate of 1/60<sup>th</sup> 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 in respect of service before 1 October 2002 calculated broadly as per classic and benefits for service from October 2002 calculated as in premium. In nuvos a member builds up a pension based on his/her pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3% of their pensionable earnings in that scheme year and the accrued pension is uprated in line with RPI. In all cases members may opt to commute pension for lump sum up to the limits set by the Finance Act 2004.

**THE NATIONAL FOREST COMPANY**  
**NOTES ON FINANCIAL STATEMENTS (continued)**

31 March 2008

**1 Accounting policies (continued)**

**Defined benefit pension scheme (continued)**

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

Further details about the Civil Service pension arrangements can be found at the website [www.civilservice-pensions.gov.uk](http://www.civilservice-pensions.gov.uk)

**Related party transactions**

Defra is regarded as a related party. During the year, the NFC received grant in aid from the Department as disclosed in Note 6.

During the year, none of the Directors, staff or other related parties has undertaken any material transactions with the NFC, other than those disclosed in Note 18.

2 Other operating income	2008	2007
Donations and sponsorship	86,950	147,419
Heritage Lottery Fund	-	117,892
emda - Visitor Gateway Project	279,100	319,300
Landfill Tax Credit	-	50,000
Grants received	475,692	277,050
Sundry income	<u>336,605</u>	<u>369,506</u>
	<u>1,178,347</u>	<u>1,281,167</u>

Sundry income includes: receipts from the sales of land; monies received from the Forestry Commission towards land acquisitions, monies received under Section 106 agreements, and local authority contributions towards and advertising revenue from the 2008 visitor guides campaign.

**3 Notional cost of capital**

Treasury guidance requires that as part of operating costs, to the extent that there is no real charge for it, the notional cost of capital be calculated. To this end the notional cost of capital has been calculated at 3.5% of the average of total assets less total liabilities. An entry reversing this amount has also been made in accordance with the guidance.

**THE NATIONAL FOREST COMPANY**  
**NOTES ON FINANCIAL STATEMENTS (continued)**

31 March 2008

4	Operating deficit	2008	2007
	The operating deficit is arrived at after charging/(crediting)	£	£
	Fees payable to the Company's auditor for the audit of the Company's annual accounts	7,014	6,901
	Depreciation of tangible fixed assets		
	- normal depreciation	103,336	16,905
	- exceptional depreciation	155,000	41,000
	Release of Government grants – capital		
	- normal	(103,336)	(16,905)
	- exceptional	(155,000)	(41,000)
	Operating leases	34,266	33,938

In accordance with the Accounting Policies set out on page 19, when land is acquired, the difference between the cost of the land and the eventual sale proceeds is charged to depreciation over the period for which the land is to be held. The freehold of two lots of land at Hartshorne acquired at auction in 2007/08 is to be transferred for nil proceeds to the Forestry Commission in 2008/09 in accordance with procedures specified in the Land Acquisition Policy. The cost of £155,000 paid for these two lots was charged/credited as exceptional depreciation and amortisation in 2007/08.

5	Interest receivable and similar income	2008	2007
		£	£
	Bank interest receivable	<u>48,034</u>	<u>34,852</u>

6	Grant in Aid	2008	2007
		£	£
	Received in the year	3,350,000	3,400,000
	Expenditure on fixed assets	<u>(405,726)</u>	<u>(31,419)</u>
		<u>2,944,274</u>	<u>3,368,581</u>

7	Employees	2008	2007
		Number	Number
	Average monthly number of employees, including Directors		
	Directors (including Chief Executive)	9	9
	Staff	<u>18</u>	<u>17</u>
		27	26
		=	=



# THE NATIONAL FOREST COMPANY

## NOTES ON FINANCIAL STATEMENTS (continued)

31 March 2008

### 7 Employees (continued)

Staff costs, including Directors	£	£
Salaries	639,838	641,013
Social security costs	50,531	51,463
Other pension costs	<u>117,221</u>	<u>115,913</u>
	807,590	808,389

Directors' emoluments are disclosed in note 8.

	2008 £	2007 £
8 Directors		
Emoluments (including benefits in kind)	119,920	118,882
Pension scheme contributions	<u>15,483</u>	<u>15,091</u>
	135,403	133,973

Emoluments of Chairman:

(The Chairman is remunerated on the basis of working an average of one day per week).

		2008 £		2007 £	
<u>Name</u>	<u>Contract Expiry Date</u>	<u>Taxable Benefits</u>	<u>Remuneration</u>	<u>Taxable Benefits</u>	<u>Remuneration</u>
Dinah Nichols	31 March 2011	<u>1,041</u>	<u>16,625</u>	<u>2,429</u>	<u>16,204</u>

Emoluments of non-executive Directors:

(Non-executive Directors are remunerated on the basis of working an average of one day per month)

		2008 £		2007 £	
<u>Name</u>	<u>Contract Expiry Date</u>	<u>Taxable Benefits</u>	<u>Remuneration</u>	<u>Taxable Benefits</u>	<u>Remuneration</u>
Russ Canning	31 March 2011	1,462	3,048	-	2,971
Martin Glynn	31 March 2010	2,031	3,048	1,203	2,971
Oliver Johnson	31 March 2010	769	3,048	1,211	2,971
Valerie Le Vaillant	31 March 2011	1,878	3,048	2,365	2,971
Robin Pellew	31 March 2011	1,173	3,048	-	-
Susan Warren	31 March 2011	745	3,048	-	-
Peter Webster	30 June 2007*	52	762	-	-
Judith Webb	31 March 2011	635	3,048	-	-

\* Peter Webster resigned with effect from 30 June 2007 on the grounds of ill health.

**THE NATIONAL FOREST COMPANY**  
**NOTES ON FINANCIAL STATEMENTS (continued)**

31 March 2008

**8 Directors (continued)**

Emoluments of the Chief Executive, the highest paid Director:

<u>Name</u>	<u>Age</u>	<u>Contract Start Date</u>		
Sophie Churchill	44	1 February 2006		
		<u>Contract Expiry Date</u>		
		31 January 2011		
			2008	2007
			£	£
Salary			66,739	65,048
Non-consolidated bonuses			4,672	6,422*
Pension scheme contributions made by employer			<u>15,483</u>	<u>15,091</u>
			86,894	86,561

\* Bonus relates to period 1 February 2006 to 31 March 2007.

The only Director qualifying for benefits under the pension scheme is the highest paid Director.  
Details are:

	2008 £
	Sophie Churchill
Salary, including performance pay (within the range)	70,000 – 75,000
Real increase in pension at age 60 (within the range)	0 – 2,500
Real increase in related lump sum at age 60 (within the range)	-
Total accrued pension at age 60 at 31/3/08 (within range)	5,000 – 10,000
Total accrued related lump sum at age 60 at 31/3/08 (within range)	-
Cash equivalent transfer value (CETV) at 31/3/07 (nearest £'000)	66,000
Cash equivalent transfer value (CETV) at 31/03/08 (nearest £'000)	92,000
Real increase in CETV after adjustment for inflation and market investment factors (nearest £'000).	10,000

The Chief Executive is a member of the Principal Civil Service Pension Scheme. The benefits provided are summarised in Note 1 on the Financial Statements on pages 20 and 21.

The accrued pension quoted is the pension the member is entitled to receive when they reach pension age, or immediately on ceasing to be an active member of the scheme if they are already at or over pension age. Pension age is 60 for members of classic, premium and classic plus and 65 for members of nuvos.

# THE NATIONAL FOREST COMPANY

## NOTES ON FINANCIAL STATEMENTS (continued)

31 March 2008

### 8 Directors (continued)

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 of 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 individual has transferred to the Civil Service pension arrangements. They also include any additional pension benefit accrued to the member as a result of their purchasing additional pension benefits at their own cost. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

The real increase in CETV reflects the increase effectively funded by the employer. It does not include the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

9	Taxation	2008	2007
	Corporation Tax	<u>9,607</u>	<u>6,622</u>

Grant income and donations received by the Company are not subject to Corporation Tax. Interest received of £48,034 (2007: £34,852) is however taxable at the rate of 20% (2007: 19%), resulting in the above tax charge.

10	Tangible assets	Freehold Land £	Fixtures and fittings £	Computer equipment £	Total £
	Cost or valuation				
	At 1 April 2007	998,750	152,093	67,764	1,218,607
	Purchased during the year	400,000	350	5,376	405,726
	Disposals during the year	<u>(16,000)</u>	<u>(459)</u>	<u>(2,752)</u>	<u>(19,211)</u>
	At 31 March 2008	<u>1,382,750</u>	<u>151,984</u>	<u>70,388</u>	<u>1,605,122</u>
	Depreciation				
	At 1 April 2007	105,310	151,215	47,858	304,383
	Charges in the period	245,000	878	12,458	258,336
	Depreciation charged on disposals	<u>(16,000)</u>	<u>(459)</u>	<u>(2,752)</u>	<u>(19,211)</u>
	At 31 March 2008	<u>334,310</u>	<u>151,634</u>	<u>57,564</u>	<u>543,508</u>
	Net Book Value 31 March 2008	<u>1,048,440</u>	<u>350</u>	<u>12,824</u>	<u>1,061,614</u>
	Net Book Value 31 March 2007	<u>893,440</u>	<u>878</u>	<u>19,906</u>	<u>914,224</u>

# THE NATIONAL FOREST COMPANY

## NOTES ON FINANCIAL STATEMENTS (continued)

31 March 2008

11	Debtors	2008 £	2007 £
	Prepayments and accrued income	110,621	296,895
	Other taxation and social security	44,826	132,584
	Other debtors		
	- due within one year	19,507	16,024
	- due in more than one year	<u>14,447</u>	<u>10,020</u>
		189,401	455,523
		<u>          </u>	<u>          </u>
		2008	2007
		£	£
12	Creditors: amounts falling due within one year		
	Corporation Tax payable	9,607	6,622
	Deferred income		
	- government grants (capital)	8,837	13,336
	Accruals and other deferred income	<u>21,546</u>	<u>49,125</u>
		39,990	69,083
		<u>          </u>	<u>          </u>
		2008	2007
		£	£
13	Creditors: amounts falling due after more than one year		
	Deferred income – government grants (capital)		
	- between two to five years	<u>4,337</u>	<u>7,448</u>
		<u>          </u>	<u>          </u>
14	Reserves	Capital reserve £	Revenue reserve £
	At 1 April 2007	893,440	490,782
	Released through income and expenditure	(245,000)	-
	Deficit for the year		(2,672,762)
	Grant in aid financing	<u>400,000</u>	<u>2,944,274</u>
	At 31 March 2008	<u>1,048,440</u>	<u>762,294</u>

**THE NATIONAL FOREST COMPANY**  
**NOTES ON FINANCIAL STATEMENTS (continued)**

31 March 2008

**15 Financial commitments**

**Operating lease commitments**

The payments which the Company is committed to make in the next year under operating leases are as follows

	2008	2007
	£	£
Land and buildings, leases expiring between one and five years	35,069	35,069
	<u>          </u>	<u>          </u>

**Other financial commitments**

The Company is committed to make payments under the National Forest Tender Scheme as follows:

	2008	2007
	£	£
Within one year	441,199	662,210
Two to five years	1,188,114	1,605,392
Over five years	<u>          </u>	<u>13,387</u>
	1,629,313	2,280,989
	<u>          </u>	<u>          </u>

The Company is funded by Defra and the Directors expect funding to continue at levels that will cover these commitments.

**Capital commitments**

The Company had no capital commitments at 31 March 2008 or 31 March 2007

	2008	2007
	£	£
<b>16 Reconciliation of operating deficit to net cash inflow from operating activities</b>		
Operating deficit	(2,769,813)	(3,194,267)
Notional cost of capital	58,624	36,667
Depreciation of tangible assets	258,336	57,905
Decrease/(increase) in debtors	266,122	(317,839)
Decrease in creditors	<u>(35,189)</u>	<u>(310,010)</u>
<b>Net cash inflow from operating activities</b>	<u>(2,221,920)</u>	<u>(3,727,544)</u>

**THE NATIONAL FOREST COMPANY**  
**NOTES ON FINANCIAL STATEMENTS (continued)**

31 March 2008

**17 Analysis of changes in net funds**

	1 April 2007 £	Cash flows £	31 March 2008 £
Cash in hand and at bank	91,006	513,040	604,046
	<u>          </u>	<u>          </u>	<u>          </u>

**18 Transactions with related parties**

The NFC is a Non-Departmental Public Body (NDPB) sponsored by Defra which is regarded as the Company's controlling related party. During the year, the Company received £2,944,274 (2007: £3,368,581) as financing, revenue grant in aid and £405,726 (2007: £31,149) capital grant in aid from Defra.

In accordance with the Land Acquisition Policy agreed between the Company and Defra, where Forest Enterprise (FE) is the preferred partner, an expedited procedure is followed to enable an early transfer of the freehold of the land to FE. In such cases the freehold in the land is vested in the Secretary of State and 'placed at the disposal of the Forestry Commissioners'. During the year two such acquisitions were completed at a cost to the Company of £597,500.

During the year, no Director, key manager or other related parties has undertaken any material transactions with the Company. During the year ended 31 March 2006, a loan was made to Sophie Churchill, Chief Executive and a Director, under the terms of the scheme for car loans to employees. As at 31 March 2007, the amount of loan outstanding amounted to £2,250 (2007: £4,950).