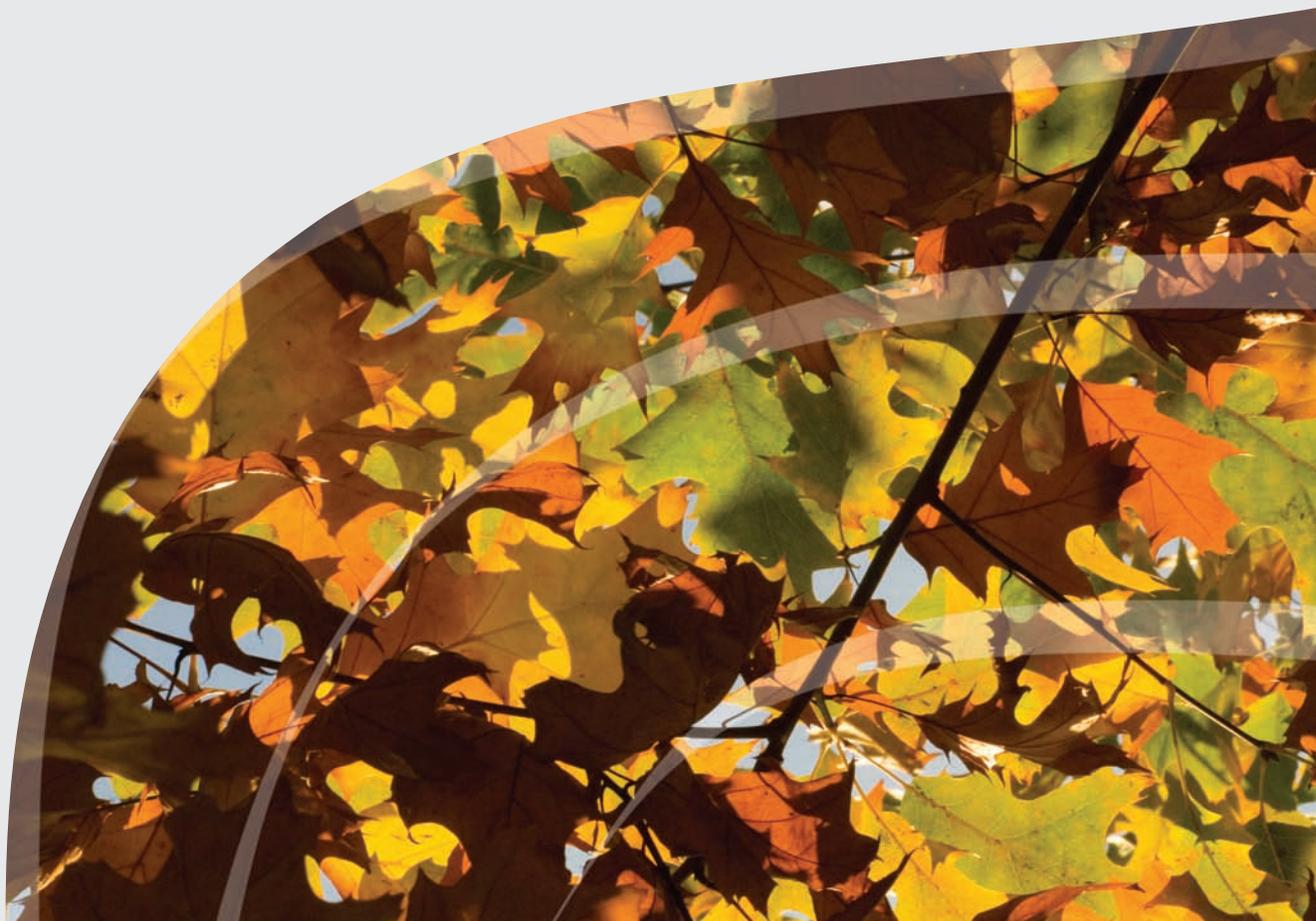




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# Operations of the Forestry Commission Wales



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I have prepared this report for presentation to the National Assembly under the Government of Wales Acts 1998 and 2006.

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**Report presented by the Auditor General to the National  
Assembly on 13 November 2008**



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## Summary

- 1 Forestry Commission Wales (FCW), which is a part of the Forestry Commission Great Britain (FCGB)<sup>1</sup>, makes recommendations to the Assembly Government on forestry policy. The FCW is also responsible for delivering the Assembly Government's forestry policy objectives. In fulfilling this role, FCW:
    - directly manages the forests on the 126,000 hectares (ha) Assembly Government owned estate which amounts to around six per cent of Welsh land; and
    - encourages sustainable land management practices in the private forestry sector through grant incentives<sup>2</sup> and regulation including licensing for felling and replanting.
  - 2 In 2007-2008, FCW received £22.3 million of its annual £45 million turnover from the Assembly Government. The FCW also generates around £9 million annually from timber sales, as well as receiving funds from European grant schemes.
  - 3 In 2001 the Assembly Government published *Woodlands for Wales*, its 50-year vision for forestry and woodland policy in Wales. *Woodlands for Wales* set out a new and multi-purpose vision of forestry. In addition to supporting the timber industries, the Assembly Government expected Welsh forests and woodlands to deliver a range of broader social and environmental benefits. The Assembly Government's consultation on revising *Woodlands for Wales* envisages a further broadening of FCW's remit, with a particular emphasis on the role forestry can play in addressing the challenges of climate change.
  - 4 In the light of this broadening forestry agenda, we considered whether FCW was well placed to deliver its objectives now and in the future. We found that FCW is generally delivering a widening forestry agenda and now needs to address a number of significant challenges.
- The FCW has met financial targets and the majority of performance targets while delivering a broadening agenda**
- 5 The FCW has met the majority of its Key Performance Indicators (KPIs) and achieved key financial targets in 2006-2007 and 2007-2008. The KPIs reflect the broader agenda that FCW is now pursuing. However, it has missed a minority of its KPIs.
  - 6 We found evidence of FCW working effectively with its partners on the ground to deliver the following Assembly Government priorities for forestry:
    - opportunities for access and recreation;
    - the role of forestry in community development through the involvement of communities in determining their needs of the forest and delivering solutions;
    - creating educational opportunities in woodlands;
    - enhancing biodiversity in woodlands;

<sup>1</sup> This comprises the three Forestry Commissions of England, Scotland and Wales. Forestry has been fully devolved in Northern Ireland since 1922.

<sup>2</sup> Through such grants, FCW influences the management of an additional eight per cent of Welsh land.

- facilitating the production of renewable energy by managing, on behalf of the Assembly Government, a major procurement process to create wind farms on FCW land; and
  - expanding the market for timber products.
- 7 Although controversial, FCW's recent wind farm procurement will deliver the majority of the Assembly Government's target of producing 800 megawatt (MW) of renewable electricity from onshore wind farm developments. This target supports the UK Government's target to deliver 10 per cent of electricity from renewable sources by 2010.
- 8 The FCW is simultaneously part of FCGB and acts as a 'virtual division' of the Assembly Government, with its Director sitting on the Management Team of the relevant Assembly Government directorate. The development of a Memorandum of Understanding between FCW and the Assembly Government has contributed to the successful operation of potentially complex arrangements.

### The FCW needs to address a number of significant challenges

- 9 The Assembly Government's forthcoming revised *Woodlands for Wales* strategy is intended to provide FCW with a clear steer about the trade-offs that it will need to manage in delivering the range of objectives for forestry. The FCW staff also say that the organisation needs to clarify its priorities more clearly and that the different parts of FCW do not share a common view of its strategic direction, which can lead to some internal tensions. Consequently, FCW needs to develop a much clearer corporate direction and resource allocation to support the effective management of trade-offs between the various aspects of its wider agenda, and management of potentially competing stakeholder expectations.
- 10 Combined with the fact that indicators have been inconsistently expressed, changes to KPIs can make it difficult to track trends. There is scope to produce a simpler suite of key measures that fully reflect the purpose and objectives of FCW and stakeholder expectations of it. The use of an approach to performance management that more explicitly links purpose, strategy and measures of progress, could significantly improve current arrangements.
- 11 The FCW's core business processes do not consistently support the delivery of its strategic priorities. In particular, its business planning is short-term and driven by financial rather than strategic considerations. Procurement has required more central co-ordination, as there have been problems of non-compliance with FCW procedures and poor record-keeping. And we found examples where major projects were not supported by formal business cases when opportunities arose outside the annual budget setting process or funding became available at short notice. Business processes need to be strengthened in the following areas:
- **Business planning**, an approach to the evaluation of business cases should be adopted that links activity, the allocation of scarce resources and key strategic priorities.
  - **Performance management** needs to be more effectively aligned with corporate objectives, both for FCW as a whole and for individual members of staff.
  - **Procurement** needs to be effectively co-ordinated across FCW.
  - The FCW has recently introduced the Better Woodlands for Wales (BWW) **grant scheme**. It needs to develop effective performance reporting systems that focus on securing its long-term objectives and



outcomes and provide appropriate support to the high volume of applicants to overcome known barriers affecting the approval of schemes.

- Although FCW has improved its **risk management** arrangements, there are no specific risk management arrangements for key business risks, such as fluctuations in timber prices and grants.
- 12** The FCW's approach to financial management is short-term, partly reflecting its funding arrangement with the Assembly Government. The Assembly Government agrees with FCW a budget for three years based on forecasts of FCW's likely timber income. While the Assembly Government may provide FCW with additional funding over and above the agreed funding to meet actual deficits, the amount and timing of such additional resources are uncertain. Despite the long-term nature of the forestry business and life cycle of key assets, FCW does not undertake effective medium-term financial planning and has to react to volatility of timber income resulting from fluctuations in market prices. This is reflected in procurement activity tending to take place towards the end of the financial year and capital planning which reflects income rather than strategy or need.
- 13** The Assembly Government does not allow FCW to hold cash reserves or equity capital to smooth the impact of market fluctuations, beyond carrying forward two per cent of its net cash requirement<sup>3</sup>. The introduction of more robust timber forecasting methods and Accounting by Objectives (ABO), which will classify programmes and the resources needed to deliver them by the relevant strategic objectives, may be expected to
- provide a basis for a more strategic approach to financial management. Similarly, there is scope for FCW to improve its corporate asset management to deliver better value for money, particularly in developing a more strategic approach to the management of key assets, such as its buildings.
- 14** The FCW has developed new processes to support timber production, which generates around one fifth of FCW's annual income. Since 1997, FCW has offered long-term contracts to those buying timber. The first round of long-term contracts ended in 2005-2006 and delivered benefits by providing FCW with stability of income during unfavourable market conditions. Those working in the industry who provided comments through our website expressed some concerns about the reduction in timber supply and the adequacy of, and adherence to, production forecasts. However in the wake of felling significantly more trees than it forecast in 2004 and 2005, FCW has taken a number of steps to improve the forecasting of timber production on its own estate, which include the development of a five-year harvesting plan covering a longer timescale than the equivalent plans in England and Scotland.
- 15** Although FCW has the right foundations in place for timber production, our work has identified a number of concerns:
- there are risks to value for money because FCW has allowed the volume of timber extracted to exceed contractually specified amounts and to be extracted from the forest after contract end dates, on terms which therefore may not reflect changes in market conditions and thus reduce FCW's income in a rising market;

<sup>3</sup> In 2005-2006 the Assembly Government agreed, on a one-year exception basis, that FCW could carry forward five per cent of its net cash requirement. FCW did not utilise this provision.

- although FCW has generated a similar level of income per unit of timber to the Forestry Commission in England and Scotland, it has not undertaken an analysis to assess the scope to vary the balance of direct production and standing sales which are potentially more profitable (see box 4); and
  - from 2004-2005, FCW had to reduce the volume of timber it fells by just under one quarter to reflect historical problems of significant over-felling and prevailing levels of timber supply which were not sustainable.
- 16** From a broadly similar staffing baseline, between 2004 and 2007, FCW's staff numbers fell by nine per cent while staff numbers in England and Scotland increased over the same period. The FCW expects further reductions in staffing over the next three years, while staff numbers are projected to increase in England and Scotland. Having delivered a wider agenda as staff numbers have fallen, both FCW and FCGB have expressed concern about whether FCW will be able to accommodate a broadening agenda, for example arising from the refreshed *Woodlands for Wales* strategy, without additional capacity. As well as overall workforce capacity, FCW will need to consider how it will develop the skill mix it needs to deliver the widening forestry agenda.
- 17** Both internal and external stakeholders expressed a range of views about the role of the public forestry estate in Wales. Some had very traditional views about the production of timber, while others were much more supportive of the wider delivery of the social, economic and environmental benefits from the estate. Such differences are reflected in the potentially competing expectations of external stakeholders and in cultural differences within FCW. Consequently, there is a clear need for effective leadership from FCW to unite staff around a clear strategic direction, and to manage the impact of the potentially competing expectations of external stakeholders.



## Recommendations

18 Our recommendations fall into groups which can be linked and are set out in **Figure 1** below.

### *To link corporate strategy, priorities and resource allocation*

1 The FCW staff believe that the organisation needed to clarify its priorities more clearly. Different parts of FCW do not share a common view of its strategic direction which can lead to internal tensions and difficulties managing operational issues within the forest estate. **In responding to the revised *Woodlands for Wales* strategy, FCW should set out a clear corporate plan and priorities, supported by robust plans for delivery.**

### *To strengthen core business processes by integrating them with strategic objectives*

2 The FCW's business planning is short-term and driven by financial rather than strategic considerations, reflecting in part the pressures of its reliance on income from timber sales. Financial and business planning needs to be better integrated with corporate planning to ensure that resources are allocated according to strategic priorities rather than historical financial patterns. There is no medium-term financial plan beyond three years, and weaknesses in capital planning as capital expenditure tends to relate more to the availability of income than need. **Building on the development of its ABO approach, FCW should:**

**Figure 1 – The recommendations in this report require FCW to provide a clearer corporate direction, and to align its core business processes and use of resources with it, supported by effective leadership**



- undertake a fundamental review of its business planning and financial management systems to ensure that a longer-term approach delivers a sufficiently strategic allocation of resources, as well as a focus on immediate cash flow pressures;
  - develop clear processes to link cost centre business plans with the corporate plan;
  - develop a medium-term capital plan, supported by business cases; and
  - develop a medium and long-term financial plan aligned to the new corporate business plan and district business plans.
- 3 The FCW does not have a performance management system that aligns with strategic objectives, and has used an inconsistent suite of KPIs. Corporate KPIs do not link directly to the objectives in *Woodlands for Wales*. As strategic choices become clearer through the Assembly Government's revised *Woodlands for Wales* strategy, **FCW should develop a smaller suite of key measures of performance that are explicitly linked to its purpose, the Assembly Government's key strategic objectives and stakeholder expectations. It should link strategic objectives and core measures of performance. It should base any new measures on an assessment of:**
- demand for FCW services from the perspective of its customers, including Assembly Government objectives set out in the revised *Woodlands for Wales*;
  - demand to better understand its current position, performance and capacity;
  - its scope to increase capacity by improving the way it delivers its work; and
- **the impact of trade-offs between the delivery of its various objectives at both strategic and operational levels.**
- 4 Corporate and individual performance management is not consistently linked with corporate objectives. Line managers reported difficulties explaining to staff how their individual roles contributed to the delivery of FCW's strategy. **The FCW should structure individual staff objectives according to key corporate objectives, so that all FCW employees can see how their own role contributes to the delivery of key FCW objectives.**
- 5 The FCW does not have a co-ordinated approach to procurement, and often undertakes procurement later in the financial year when timber income levels are clearer. This has led to a short-term approach which is not clearly linked to strategic objectives. There have been examples where business cases have not been developed and also examples of timber contracts exceeding end dates or contracted volumes. Existing guidance is lengthy and recent audit findings suggest that there is limited understanding of it. The ongoing process of appointing a dedicated procurement officer should improve capacity and FCW's corporate approach to procurement. **The FCW should work more closely with Value Wales to secure additional capacity and expertise to support the newly appointed procurement officer, for example to:**
- **develop a specific procurement strategy for FCW and clear, simple guidance for staff on the ground;**
  - **maintain a central tender register and contracts database, including warning limits to highlight contracts approaching their limits;**



- negotiate appropriate contract extensions and deliver value for money;
  - implement call-off contracts and approved suppliers lists that are unique to Wales;
  - introduce effective arrangements for auditing and reconciling the contracts database and central tender register; and
  - develop systems to learn and disseminate lessons learned from major procurements, such as the wind farm programme.
- 6 The FCW needs to evaluate its BWW grant scheme effectively to ensure it is delivering in line with *Woodlands for Wales*' objectives. In the first year of the scheme, FCW failed to achieve two KPIs relating to participation and expenditure on the BWW grant scheme. Consequently FCW needs to review the scheme to increase the number of Management Plans approved, and ultimately to encourage better woodlands. **The FCW should:**
- develop a good understanding of how potential applicants view its grant schemes by analysing trends in uptake, stakeholder perceptions and areas for improvement;
  - the FCW should consider simplifying its BWW scheme and examine the reasons for the lower than expected number of approved Management Plans; and
  - the FCW should develop a series of performance measures for its grant schemes which measure and report progress against outcomes as well as process.
- 7 The FCW has not linked its risk register to its corporate objectives and has not set up more robust arrangements for key areas of the business, such as timber income and grants. **The FCW should link its risk register clearly with its corporate objectives. It should also consider setting up separate underlying risk registers for timber income and grants. It should review these risk registers on at least a quarterly basis.**
- To manage its resources effectively*
- 8 The FCW's financial position and short-term approach to financial planning and management are heavily influenced by its volatile timber income and its lack of equity capital. **The Assembly Government should identify the scope to relax its restrictions on FCW holding reserves to support a more strategic approach to financial and asset management, and to help smooth the impacts of fluctuations in timber markets.**
- 9 The FCW needs to adopt a strategic approach to the management of its corporate assets. **The FCW should develop an asset management plan which identifies whether assets are still needed, whether they are in the right location, works required to ensure their ongoing fitness for purpose, and which is clearly linked to a capital programme.**
- 10 The FCW is heavily reliant on timber income which is volatile and fluctuates according to prevailing market forces. However, it has not pursued a consistent strategic direction in terms of the balance of standing sales relative to direct production. **To manage the risks associated with fluctuations in the timber market, FCW should:**
- develop robust contingency plans to deal with market fluctuations;

- given the different profit margin between direct production and standing sales, assess the costs and benefits of changing the current balance of each method, taking account of all relevant variables such as the higher profit margin from standing sales and the associated risks;
  - reflect this assessment in its wider marketing strategy; and
  - develop clear scenario planning to assess the opportunities and risks that arise from falling or rising timber income.
- 11** The FCW has not adequately managed the process for exceeding timber contract volumes in recent years. **The FCW should implement procedures that set a tolerance within which staff can authorise excesses over contract levels, but beyond which approval would be sought.**
- 12** Although FCW acknowledges that its current estate is not located in the most appropriate parts of Wales, it does not have a clear estates repositioning strategy. In addition, under the current financial arrangements with the Assembly Government, FCW is unable to utilise receipts from sales beyond the year of disposal. **Once FCW has completed its baseline survey of the current estate, FCW and the Assembly Government should develop a clear strategy for the future development of its estate, including proposals for the disposal and acquisition of land and for the use of any receipts.**
- To manage change effectively so that internal and external stakeholders have a clear understanding of FCW's strategic direction*
- 13** The FCW needs to deliver effective change management to ensure that internal and external stakeholders understand its direction and strategy. **To develop a stronger corporate culture and ensure that staff are united around a clearly understood strategic direction, FCW should:**
- develop a strategic communications plan to support staff understanding of the organisation's direction and to reduce cultural tensions;
  - align the messages it delivers to internal and external stakeholders; and
  - seek to develop schemes to rotate staff from their usual roles into other parts of the business to develop their understanding of the wider context.



## Part 1 – The FCW has met financial targets and the majority of performance targets while delivering a broadening agenda

### An expanding forestry agenda has placed additional expectations on FCW

#### **Woodlands for Wales (2001) set out a broad vision of multi-purpose forestry**

1.1 The Assembly Government's *Woodlands for Wales* strategy sets out its expectations that Welsh forests and woodlands should deliver a range of broader social and environmental benefits (Figure 2). With sole responsibility for delivering these objectives on the publicly owned woodland estate primarily on behalf of the Assembly Government, the broader focus set out a new direction for FCW which moved from 'single purpose plantations' (aimed at supporting timber processing industries) towards more innovative uses of woodland resources to contribute to the achievement of the Assembly Government's social, economic and environmental policies. Appendix 2 describes the units of FCW that deliver this agenda.

#### **More recently climate change has become a key strategic driver for forestry in Wales**

1.2 Recent Assembly Government policy further broadens the remit of forestry in Wales, by emphasising the role of forestry in mitigating the impacts of climate change and the challenges of climate change for the woodland estate. In considering how to tackle climate change, the Assembly Government's

#### **Figure 2 - Woodlands for Wales set out the Assembly Government's strategic aims for forestry**

##### **Woodlands for people**

Woodlands and forestry should provide social and environmental benefits to local communities, including opportunities for learning, and in so doing contribute to local sustainability.

##### **A new emphasis on woodland management**

The strategy called for more effective support to managers and owners of woodlands, to maximise both the public and private benefits of woodlands.

##### **Wales as a location for world class forest industries**

The strategy estimated that woodland industries contributed approximately £400 million to the Welsh economy, and identified the need to help timber processors in developing their businesses, retaining skilled jobs and making links to other business opportunities within agriculture and tourism.

##### **A diverse and healthy environment**

*Woodlands for Wales* identified the need to maintain and improve the physical and biological characteristics of the woodlands, through preserving and enhancing soil and water quality and promoting biodiversity across the whole woodland estate.

##### **Tourism, recreation and health**

The strategy identified woodlands as a location for exercise and enjoyment and envisaged a key role for woodlands in supporting the emotional and physical health of the Welsh people.

Source: *Woodlands for Wales (2001)*

'One Wales'<sup>4</sup> document sets out its commitment to create a 'Welsh National Forest of native trees to act as a carbon sink'<sup>5</sup>.

4 The 3 May 2007 National Assembly elections led to a coalition government comprising Labour and Plaid Cymru Assembly Members. The *One Wales* document, jointly agreed between these two parties on 27 May 2007, outlines the coalition's priorities for action.

5 The Assembly Government's Department for Rural Affairs is responsible, through both the Assembly Government delivery plan and the Rural Affairs business plan, for monitoring FCW's performance against this commitment.

**1.3** In July 2007, the Assembly Government issued a consultation document on revising its strategy. In comparison with the original 2001 *Woodlands for Wales* strategy, this consultation document more strongly emphasises the impacts forestry can have on climate change. Beyond the sequestration of carbon, the consultation document envisages forests playing a significant role in:

- adapting to the realities of climate change, for example, by functioning as habitat networks and thereby enhancing the resistance of species to climate change; and
- substituting fossil fuels for wood fuel and replacing energy intensive products such as concrete and steel with less polluting wood products<sup>6</sup>.

**1.4** The *Environment Strategy* for Wales sets out the Assembly Government's commitment to develop a climate change adaptation plan to address the impacts of climate change on agriculture and forestry, and ensure that forestry policy promotes an estate which is resilient to the challenges of climate change.

**1.5** In November 2007, FCGB hosted a large scale conference to help develop a better understanding of the relationships between forestry and climate change. In June 2008 FCW hosted a similar conference of key Welsh policy and decision makers to raise awareness about the role which forests and forestry can play in combating climate change in Wales. Staff and external stakeholders consistently highlighted the opportunities offered, and the threats posed by climate change. Our focus groups with FCW staff highlighted FCW's work on combating climate change as an example of good practice. External stakeholders, including members of

the public who commented via the Wales Audit Office's website, consistently emphasised the importance of climate change to FCW's future programme of work.

## **In recent years FCW has met, and is on track to continue meeting, the majority of KPIs, including key financial targets**

**1.6** The FCW uses a series of KPIs to assess its performance. These KPIs are structured around the themes set out within FCW's corporate plan. The FCW uses the following broad themes to assess its performance:

- sustainably managed woodlands;
- woodlands supporting effective and durable communities;
- woodlands making a positive contribution to the Welsh economy;
- woodlands contributing to a more healthy and resilient environment; and
- effective and efficient customer focussed delivery.

**1.7** In 2006-2007, FCW met 16 (62 per cent) of its 30 KPIs ([Appendix 3](#)), including those committing it to operating within its overall budget and financial settlement from the Assembly Government. In 2007-2008, FCW retained its commitment to manage outturn in line with budget and to operate within the overall level of funding provided by the Assembly Government and met 19 (or 79 per cent) of its reduced suite of 24 KPIs for that year ([Appendix 3](#)). [Figure 3](#) sets out the KPIs that FCW did not achieve in 2007-2008 with some explanation of their significance.

<sup>6</sup> Work by FCGB's Forest Research group has concluded that 'the greatest positive carbon impact can be made by managing forests sustainably for products that can substitute for materials that have a large carbon footprint' (summary of the June 2008 Conference 'Forests and Climate Change A Convenient Truth?').



## Stakeholders recognise FCW’s progress in responding to a widening forestry agenda

The FCW staff believe that FCW is delivering a broadening forestry agenda, while continuing to support timber-based industries

**1.8** Our focus groups identified that FCW staff believe that it is effectively delivering against the Assembly Government’s vision of a forestry that delivers social and environmental benefits, while at the same time supporting

the traditional timber industries within Wales (Appendix 4). Participants felt that FCW was doing particularly well in delivering across the social forestry agenda, providing public access to recreational facilities, such as visitor centres, mountain bike and horse riding trails, and identified a range of FCW initiatives which were seen as contributing to a better quality environment in Wales.

**1.9** While staff were less confident about FCW’s work to ‘support thriving woodland-based industries’, they felt that FCW had put in place a range of initiatives to promote

Figure 3 – The FCW missed five KPIs in 2007-2008

| Key performance indicator   | Actual performance in 2007-2008  | Commentary  |
|---|--|---|
| KPI 5 Area of Woodland entered into the BWW scheme (paragraph 2.16)                     | The target was to enter 10,000 ha of woodland into the scheme – but the actual amount of land entered into the scheme was 6,537 ha.  | <p>Better Woodlands for Wales places the onus on the woodland holder to develop and submit an initial application followed by a Foundation Plan and detailed Woodland Management Plan. The FCW report a high number of applicants. However the following factors mean that fewer than expected applicants have proceeded to submit a Woodland Management Plan, leading to a lower than expected number of approved applications:</p> <ul style="list-style-type: none"> <li>■ external factors, for example, capacity within the professional woodland management sector and difficulties experienced by prospective applicants in mapping land; and</li> <li>■ internal factors, such as early problems with the IT platform supporting the scheme, and the complexity of the scheme design.</li> </ul> <p>The FCW is currently working to simplify the scheme, and would expect to see the scheme evolve further to reflect the revised <i>Woodlands for Wales</i> strategy and the conclusions of the Assembly Government’s review of Axis 2 of the Rural Development Plan.</p> <p>These points also link with KPI 23 which FCW also missed.</p> |
| KPI 9 Number of community development projects completed through Cydcoed (Case Study B) | This indicator is measured on the basis of the number of financially complete projects, with financial completion defined as evidence of full expenditure (against grant allocation). Using this definition, for 2007-2008 FCW completed 57 of the target 81 Cydcoed community development projects. | <p>Cydcoed funds are paid in advance to community groups. The FCW report that they have missed this target because, whilst they have fully advanced the available programme funds, not all groups have evidenced full spend of their allocation.</p> <p>As at 31 March 2008, the disparity between grants advanced and evidenced spend approximated to £54,000, leading the Wales Audit Office to qualify FCW’s grant claim to the Welsh European Funding Office (WEFO)<sup>7</sup>.</p>  |

<sup>7</sup> The WEFO manages EU structural funds; Cydcoed is funded through the EU’s Objective One programme.

| Key performance indicator  | Actual performance in 2007-2008   | Commentary   |
|--|---|--|
| KPI 10 Total Volume harvested from the estate by the silvicultural method                          | The target was to harvest 770 km <sup>3</sup> , actual was 680km <sup>3</sup> .   | <p>This refers to the percentage of timber harvested by thinning and by clear cut felling.</p> <p>Staff expressed some concerns about the rationale for thinning some areas of FCW land. Staff acknowledge that thinning is beneficial in terms of enhancing biodiversity, maintaining the landscaping and adding value to the timber crop, but questioned whether this more expensive method of harvesting should be used in areas of low commercial, recreational and biodiversity value.</p> <p>Forest Design Plans (FDPs) identify areas for clear fell but not areas for thinning, and thus do not currently support the future achievement of this target.</p> <p>The FCW's policy is to presume that (with certain exceptions) all areas of the estate are thinned<sup>8</sup>. In support of this policy, FCW has developed a mapping system (known as the Operational Thinning Layer) which requires an assessment of the potential to thin all areas of the FCW estate.</p> <p>Under the Operational Thinning Layer system, FCW aims to achieve total thinning of what is known as the 'blue layer' or all land which is assessed as eligible for thinning. The 'blue layer' includes land which is currently scheduled for thinning and land which will require a business case prior to thinning (ie, because thinning will require significant initial investment). The FCW envisage a phased process for thinning these more costly areas, beginning in 2010.</p> <p>The clear importance ascribed to thinning means that FCW need to convince all staff groups of the inherent value of this approach to forest management.</p> |
| KPI 11 Percentage of Sites of Special Scientific Interest (SSSI) on the estate with approved plans | The FCW narrowly missed this target; two of the target 19 plans were not approved by March 31 2007. The FCW met this KPI the previous year. | Sites of Special Scientific Interest have management plans to maintain or bring them into 'favourable' condition. New designations must have plans within nine months. Surveys show that generally SSSIs are in a poorer condition in Wales than in England and Scotland; condition data for SSSIs on FCW land specifically is not available. Having management plans in place is likely to help the Assembly Government deliver on its target that 90 per cent of Welsh SSSIs should be in a 'favourable' condition by 2010.  |
| KPI 23 Utilisation of private woodlands grants budget  | The target was to spend more than 90 per cent of the budget, actual spend was 88 per cent of the budget.                                    | See comments on KPI 5.   |

Source: Wales Audit Office

<sup>8</sup> Operational Guidance Booklet (OGB) 9 states that 'we presume that all productive conifer crops will be thinned' and sets out the rationale behind this presumption. OGB 9 also sets out where thinning may not be appropriate, stated exceptions include where thinning is likely to involve an unacceptably large initial investment (such as the construction of an access road) or where it would lead to an unacceptably high risk of wind blow.



long-term private sector investment in the timber industry. Analysis of the public submissions we received identified some support for staff claims regarding FCW's positive impacts on the timber industry (Box 1), although there were more negative comments about impacts on the industry (Figure 24).

#### Box 1 – Positive comments from the public about FCW's fostering of sustainable timber production

'It is widely agreed in the wood processing sector that the Forestry Commission has served the development of the industry well by bringing wood to the market in a consistent manner, irrespective of varying market conditions.'  
'Wales has a thriving forest industry despite recent global difficulties arising from timber prices, and large volumes of timber coming onto the market from Russia and Eastern Europe.'

Source: Public submissions to the Wales Audit Office's website

#### External partners recognise the commitment of FCW and its high quality of staff to deliver broader social and environmental objectives

**1.10** The FCW's external partners generally told us that FCW was committed to a multi-purpose vision of forestry and forests. Partners were able to point to what they saw as high quality initiatives delivering against less traditional social and environmental forestry objectives. The FCW's partners identified a number of initiatives aimed at addressing key environmental concerns, such as species decline and poor water quality. In working to address declining populations of key species, FCW and the Royal Society for the Protection of Birds in Wales designed and implemented the Black Grouse Recovery Project (Case Study D).

**1.11** The FCW has also been actively exploring ways to mitigate the potentially negative impacts of harvesting operations upon water quality. The FCW has been working with the Environment Agency in Wales to:

- identify and implement appropriate management practices, for example, the use of sedimats<sup>9</sup> during harvesting operations;
- review guidelines for private sector harvesting contractors; and
- monitor the impacts of cutting 'brash'<sup>10</sup> on soil quality.

**1.12** Statutory and voluntary sector organisations remarked on the high quality provision made by FCW to enhance access and recreation, particularly the development of mountain bike trails such as those located at the Coed y Brenin Visitors' centre (Case Study A), which some regarded as an exemplar project. Public submissions to the Wales Audit Office's website also highlighted the social and environmental benefits being delivered by FCW (Box 2), identifying the following key achievements:

- provision of recreational facilities, such as visitors' centres;
- provision of access opportunities such as mountain bike trails; and
- maintenance and enhancement of habitats and wildlife.

**1.13** Staff and external stakeholders have commended the quality of FCW staff. Staff at our focus groups felt that the main strength of the organisation was the knowledge, skills, commitment and dedication of its staff. Staff and partners saw FCW as a 'can do'

<sup>9</sup> Sedimats are biodegradable mats which are fixed to the stream bed. They are used to trap sediment disturbed by activities such as pipe laying (either in or close to water courses), thus preventing pollution further downstream.

<sup>10</sup> 'Brash' refers to the residue left on site after traditional harvesting operations. The FCW have identified a market for this residue as a form of biofuel. However removing brash from harvesting sites represents a risk to soil quality, potentially leading to soil acidification (<http://www.forestry.gov.uk/fr/infd-623hxxh>).

## Box 2 – Members of the public highlighted the social and environmental benefits of FCW’s work

When asked to describe those things that FCW did well, contributors made the following comments:

‘[FCW] provides an excellent multi-service to many non core interests such as the educational programme, rights of access, and public facilities (eg, bike centres).’

‘On FCW’s own land, they provide excellent facilities for public access in ‘hot spots’.’

‘Amenity sites, way-marked forest trails, managed activities in the forests.’

‘Excellent educational programme and recreation facilities, public access, grants and licences and research. Good customer service for the general public.’

‘Provision of recreational centres of high quality that accommodate a wide range of activities and deliver educational value.’

‘Providing non-commercial recreation facilities. Environmental improvement works.’

Source: Public submissions to the Wales Audit Office’s website

organisation, which has achieved significant successes over recent years with its staff having responded well to the evolving forestry agenda. Sickness levels within FCW reduced from an average annual level of 8.6 days per employee in 2004-2005 to 4.9 days in 2006-2007, which compares very favourably with public and private sector benchmarks as well as organisations with a similar sized workforce.

## A number of FCW’s projects have effectively delivered a wider range of forestry objectives

### The FCW has provided high quality opportunities for access and recreation

**1.14** *Woodlands for Wales* requires FCW to provide opportunities for public access to the forests for tourism, recreation and health. When asked to identify examples of good practice FCW staff highlighted the provision of

recreational facilities through a series of visitor centres such as the Coed y Brenin Visitor Centre and accompanying network of mountain bike trails (**Case Study A**).

**1.15** The FCW has also been successful in supporting the development of motorsports within Wales, which has led to wider economic benefits. In 2007 FCW accessed £150,000 from the Assembly Government to support the Assembly Government’s (2002) Motorsport Initiative (MSI). Under this agreement, FCW were responsible for constructing 3.5 km of new road within the forests to qualify for a full Baja<sup>11</sup> world event. The FCW report that this additional length of road has also improved access to the forests for those using the area for other recreational purposes. In addition, FCW secured £47,000 from MSI to build a new road in Penllergaer Forest – for the ‘Shake Down’ Stage of Wales Rally GB and around £17,000 for a junction improvement in Trawscoed.

**1.16** The FCW is the co-ordinator for the Wales Rally GB, 90 per cent of which is held on the FCW estate. In 2008, FCW will host 28 motor sports events, including three world championship events. The Assembly Government estimates that a small regional motorsport event will bring approximately £60,000 into an area, whereas regional Championship or UK Motor Sport Association Championship events add approximately £0.25 million to the local economy. A recent evaluation of the economic impacts of the 2006 Wales Rally GB estimated the event to have contributed £3.9 million to the local economy with each pound of public money spent on the rally leveraging £1.70 of wholly new money to Wales. As well as providing greater opportunities for more diverse groups to use the forest estate, such developments have a significant positive impact on local economies.

<sup>11</sup> These events take their name from the Baja desert in California where the first 4x4 endurance events were held.



## Case Study A – Coed y Brenin Visitor Centre and mountain bike trails

Coed y Brenin near Dolgellau in mid-Wales had a long-established reputation as a destination for mountain biking. The growing popularity of the site, which attracted in excess of 80,000 visitors annually, meant that existing facilities could no longer provide an appropriate level of service.

In response to these high levels of demand, FCW implemented a three-year project to update facilities at the site and to develop a bike shop and a café. The new centre has been designed to have low visual impact and to meet the principles of sustainable construction. For example, the centre uses a peat-bio filter system to treat sewage which enables waste water from the site to be discharged directly into the nearby Afon Eden river, a designated SSSI. The centre also has a biomass wood fuel heating system which meets all its heating and hot water needs.

The site provides a number of recreational opportunities, at a range of levels:

- a series of walking trails for all abilities; for example, one of the key routes has a maximum gradient of 10 per cent with rest areas every 150 metres to enable people who can walk, but need regular breaks, to enjoy the trail;
- the children's play area is set on three different tiers to provide facilities for a broad age range;
- two running trails, both of which are marked from the visitor centre, of three and five miles;
- three orienteering courses, designed with local partners to a national standard; and
- five mountain bike routes and a family cycle trail.

The Assembly Government match-funded Objective One monies from the WEFO to provide the £1.6 million to finance this project, conditional on FCW increasing visitor numbers to 120,000 by the third year of operation.

FCW's examination of the use of Coed y Brenin and the independent visitor experience survey found that:

- in its first year of operation, initial visitor figures surpassed the 120,000 annual visitors which it was required to meet by year three;
- the majority of visitors rated their trip very highly with around 53 per cent describing it as 'excellent' and 42 per cent describing it as 'very good';
- 91 per cent of visitors would definitely recommend a visit to Coed y Brenin; and
- 58 per cent stated that the site had a 'very big' advantage over other outdoor recreation sites.

Source: Wales Audit Office, based on FCW

### The FCW has demonstrated how forestry can play a role in community development

**1.17** Consistent with the Assembly Government's wider policy agenda and commitment to public engagement, FCW has sought to involve communities in deciding their own needs from the forest and to take responsibility for implementing solutions.

**1.18** For example, all public forests in Wales are covered by FDPs<sup>12</sup> which are approved for a period of 10 years, but are normally reviewed after five years. All draft plans require consultation with statutory consultees but often involve consultation with the community

neighbouring the forest, local interest groups and interested individuals. The Cydcoed programme ([Case Study B](#)) aims to use woodlands as a mechanism for community development in Objective One areas and provides funds for deprived communities to identify how they would most benefit from additional green space, and to take the actions they identified to address these needs.

<sup>12</sup> FDPs explain both how individual forest areas are to be managed and set out the rationale for the proposed management practices. FDPs contain harvesting and restocking options for the duration of the plan, and also cover such issues as the management of designated sites (eg, SSSIs).

## Case Study B – The Cydcoed programme for community development

The Cydcoed programme targets the most deprived communities in Wales and those where there is limited or no access to community green space. In these communities the programme aims to:

- make existing woodland spaces more accessible;
- develop additional woodland spaces; and
- foster community involvement in the sustainable development of woodlands.

Phase 1 of the Cydcoed programme was a £4 million, three-year grant programme (2001 to 2004) run by FCW with funding from the European Union's Objective One programme and from the Assembly Government's Pathways to Prosperity grant programme.

The programme gave support and grants covering up to 100 per cent of costs to community groups in the European Objective One region of Wales to help them make use of woodland for community development. Cydcoed Phase 2, with £12 million funding from the European Union under Objective 1 and the Assembly Government, was launched in January 2003 running until September 2008. Phase 2 has 123 projects covering the same geographical areas as Phase 1. The FCW did not achieve its key performance indicator on the number of projects completed through Cydcoed in 2007-2008 (Figure 3).

Outputs from Phase 1 include:

- 5,121 ha of new woodland benefiting from community participation;
- 33 ha of new community woodland on non-agricultural land;
- 4,702 ha of woodland brought into sustainable management;
- 49 jobs safeguarded; and
- 24 jobs created and four businesses supported.

An evaluation of the Cydcoed Programme by FCGB's Forest Research group, which will assess the impacts and outcomes of the programme, is due for publication in 2008.

Source: Wales Audit Office, based on FCW

### The FCW has created educational opportunities within the forest

**1.19** The FCW has emphasised the role forests can play in providing educational opportunities for children and young people. At a strategic level, FCW has developed an education strategy covering the following three areas:

- direct work with children;
- helping others to use the forest as a learning environment, such as working with Estyn Inspectors to identify a set of criteria which can be used to evaluate teachers delivering learning opportunities in an outdoor environment; and
- making links into the Assembly Government's wider educational policies.

**1.20** In order to implement this strategy, FCW directly delivers education services, works with stakeholders to raise awareness about the benefits of using the forest as a location for learning and delivers the Forest Education Initiative and the 'Forest School' training programme ([Case Study C](#)).

### The FCW has enhanced biodiversity within the forest estate

**1.21** The Black Grouse Recovery project is seen as an example of FCW working with others to encourage species diversity within the forests ([Case Study D](#)). Partners identified this as exemplifying a 'huge shift' in FCW's focus towards delivering environmental objectives.

**1.22** The FCW is responsible for determining the composition, or the species make up, of the publicly owned estate. Consequently one of the ways in which FCW can directly enhance



## Case Study C – The FCW has created educational opportunities within the forest

### Forest Education Initiative

The Forest Education Initiative is a partnership between the Forestry Commission and nine other organisations (including the environmental charity Groundwork, and Confor which represents timber producers and processors). The Forest Education Initiative aims to demonstrate the economic, social and environmental potential of forestry and the links between trees and everyday products. Forest Education Initiative works primarily with children and young people, but also with teachers and youth leaders and others involved in environmental education.

### 'Forest School'

Forest School is an approach to using woodlands for learning and development. Led by a trained Forest School leader, primary and secondary school children make weekly visits to the same woodland setting to participate in a wide range of activities including building shelters, multi-sensory games, cooking over a fire, using simple tools and playing hide-and-seek.

The FCW support to Forest Schools in Wales includes offering advice, running Forest School programmes as examples of good practice, co-ordinating training, raising awareness through meetings, conferences and media reports and producing resources such as the Leader's Pack and accompanying DVD.

By the end of 2007, 250 people had completed the Forest School Leader course and over 100 were running Forest School programmes. Learners of all ages are participating in Forest School using rural and urban woodland areas across Wales. A recent evaluation, which focussed on children aged 3 to 11 found that learners benefited in six main ways: confidence, social skills, language and communication, motivation and concentration, physical skills and knowledge and understanding. This research also found the Forest School to have additional positive impacts on teachers, parents and the extended family.

The FCW reported that there was initially some distrust of FCW amongst independent Forest School Leaders. The FCW reported overcoming this by 'getting things done' and remaining open to comment and involvement by others through the Forest School Training Network and the Woodlands for Learning Forum. The FCW identified the key factor in success as FCW's willingness to work in partnership and to learn from others.

Source: Wales Audit Office, based on FCW

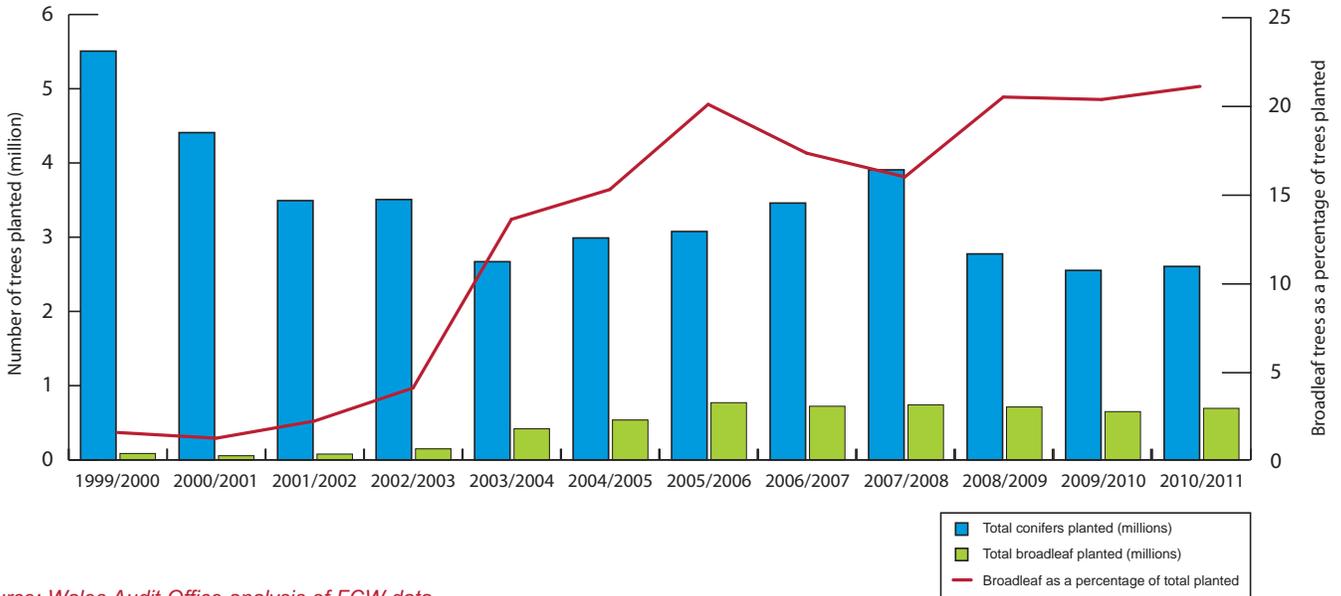
## Case Study D – The Black Grouse Recovery project

The Black Grouse Recovery project carried out by FCW, in conjunction with the RSPB, took place in two phases between 1997 and 2006. Over this period, the Countryside Council for Wales, FCW and WEFO (through the Objective One funding programme) provided a total of £1 million to better manage Black Grouse habitats in Wales. The FCW provided £301,000 over this period and work to a value of £312,000 took place on its land. The project sought to deliver a more strategic and joined up approach to the management of habitats important to black grouse, and represents a shift within FCW towards a habitat-based approach to reversing the decline of key species, and away from a species-based approach to this issue.

In order to assess the success of the scheme the RSPB carried out lek counts (spring counts of male black grouse when they gather to secure a female) on FCW sites included within the programme and land within 100m of FCW sites, and compared this against pre-programme population data. This data shows that Black Grouse numbers were declining until 1998, and suggests that the project, which started in 1997, was successful in stopping any further decline. Since then the numbers on or within 100 metres of FCW land have shown a variable but slow increase, from three in 1998 to 16 in 2007. Although the cost may appear high relative to the population increase of Black Grouse, as well as the increase in Black Grouse on their own land, Black Grouse populations increased more generally. The FCW officials told us that the works delivered wider land management benefits on its estate.

Source: Wales Audit Office, based on FCW and RSPB Wales

**Figure 4 – Although FCW has reduced tree plantation overall, actual and projected figures show an increase in the percentage of broadleaved trees planted between 1999 and 2011**



Source: Wales Audit Office analysis of FCW data

species diversity is to expand the range of species which they plant on that estate. To enhance species diversity and reduce the dominance of conifers on the publicly owned estate, FCW is planting a greater percentage of broadleaved trees. The percentage of broadleaved trees planted by FCW rose from just over one per cent of the total number of trees planted in 2000-2001 to 16 per cent in 2007-2008, with a forecast increase to 21 per cent by 2010-2011 (Figure 4).

**The FCW has facilitated the production of renewable energy, primarily through the National Wind Farm Programme**

**1.23** UK Government policy requires that by 2010, 10 per cent of electricity supply must come from renewable sources. The Assembly Government’s Technical Advice Note 8 July 2005 (known as TAN 8) set a target of producing four Terrawatts (TWh) of electricity from renewable energy sources by 2010 and seven TWh by 2020. The Assembly

Government has calculated that in order to meet this target it requires an additional 800 MWs of capacity from onshore wind developments. TAN 8 concluded that onshore wind developments should be concentrated within seven specified areas, known as Strategic Search Areas.

**1.24** In 2005 the Assembly Government decided that FCW would be responsible for both the initial tender exercise and the ongoing administration of the successful wind farm under the National Wind Farm Programme. The Assembly Government’s decision reflected the significant proportion of Strategic Search Area land managed by FCW. In October 2005 the Forestry Commissioners (representing FCW) and the Assembly Government entered into a Section 41 agreement which empowered FCW to act as an agent of the Assembly Government, and gave it certain limited powers to acquire and dispose of land on behalf of the Assembly Government. Specifically, FCW gained the



power to dispose of parts of the forest estate for non-forestry purposes such as generating renewable energy or building homes.

- 1.25** Our analysis of the procurement process run by FCW confirmed that it has been robust, and has drawn upon relevant legal and technical expertise. Our assessment is supported by the fact that in 2006 FCW successfully defended the tender process against a claim that it should be subject to judicial review after a claim that its procedures had been flawed, irrational and unfair. The procurement did slip against the original timetable because the judicial review delayed the Invitation to Tender by two months after pre-qualification.
- 1.26** The FCW has secured wind farm developments on five of the seven Strategic Search Areas with option agreements signed in March 2008. In all five cases, they have ensured that the land rental charge is linked to the price of electricity within Wales. On this basis it is estimated that, by the end of the construction phase, the National Wind Farm Programme should generate approximately £11 million in royalties for the Assembly Government. It is also estimated that on becoming operational these developments will have a capacity of 639 MW. The FCW reports that these sites will start producing energy between 2012 and 2016 reflecting the time it will take the developers to obtain planning permission for each development and then build them.
- 1.27** Both the amount of royalty generated and the operational capacity are less than the Assembly Government originally anticipated. The installed capacity is lower than the TAN 8 target of 800MW because the winning bidder for three of the seven Strategic Search Areas withdrew its bid in January 2008 as a result of a disagreement with FCW over the terms of the contracts. Consequently, FCW decided to award these options to the second highest bidder for each one. The income to be received and the capacity from the second bidder are significantly less than those which would have been achieved had FCW's preferred bidder for these three Strategic Search Areas not pulled out. This very significantly reduced the anticipated income from £32 million to £11 million, although FCW's business plan for the National Wind Farm Programme identified the generation of renewable energy, rather than income generation, as the primary purpose of the programme.
- 1.28** Wood used as a fuel, in place of coal or oil, can contribute to both national targets to increase the use of renewable energy and global targets to reduce carbon emissions. In response to the potential of wood as a renewable source of energy and to support the Assembly Government in meeting its renewable energy commitments, FCW have put in place the following initiatives:
- The FCW have recently established a contract to supply wood fuel to Western Bioenergy's new biomass plant at Margam (**Case Study E**).
  - On a smaller scale, FCW provides 'brash' to fuel a Combined Heat and Power plant in North East Wales (**Case Study F**).
  - The Wood Energy Business Scheme (WEBS) was a four-year project ending in March 2008. Targeting Objective One and Objective Two areas, with funding from the European Union and Assembly Government, the scheme provided those running small to medium-sized public buildings with grants to install wood fuelled heat and power systems. It also provided grants to purchase machinery needed to process softwood into wood chip and pellets. The FCW delivered WEBS on behalf of the Assembly Government and exceeded its target to deliver 65 completed

## Case Study E – The FCW has recently set up a contract to supply wood fuel to a private sector plant

The FCW has set up a contract to supply wood fuel to Western Bioenergy's new biomass plant at Margam.

The FCW expect to supply Western Bioenergy's plant with 66,000 tonnes of wood fuel per annum. The FCW report that this will generate an estimated income of £1.45 million per annum. However, the value of the wood supplied is based on a range of factors, including:

- the price of electricity at the point of sale;
- the moisture content of the wood; and
- the volume supplied.

The FCW expects to deliver the full contract volume although the contract terms allow it to deliver a lower quantity of wood fuel.

Source: Wales Audit Office, based on FCW

## Case Study F – The FCW has provided brash to fuel a combined heat and power plant in Shotton

The FCW report that there had been no widespread use of brash baling equipment in the UK prior to their trial work with a company operating a paper mill in Shotton.

The FCW agreed a contract to provide approximately 4,000 tonnes of brash at a trial price of £1 per tonne at stump (this means that the customer pays all harvesting and transport costs) which ended in April 2008. The FCW has negotiated a further agreement for 645 tonnes at £3.50 per tonne. The lower quantity reflects the interim nature of FCW's second contract with a view to developing a larger scale contract. The FCW reports that it was able to secure a higher price because brash baling no longer represents such a technical risk and because available benchmarks (such as the price of energy) supported a higher price.

The FCW also intends to carry out a tender sale of the brash baling sites because the trial has identified a number of significant environmental issues emerging from the use of brash bales, for example, the level of carbon dioxide released by the process of harvesting the brash. This and other emerging issues mean that FCW will need to consider whether this process is compatible with other objectives, such as, combating climate change.

By guaranteeing supply to an embryonic industry, FCW is seeking to build confidence in both the industry and the products which support this industry. In turn this should demonstrate to timber producers that there is a market for such products as brash, while demonstrating to those looking to invest in bio-energy that there is the capacity within the timber industry to meet their needs.

Source: Wales Audit Office

projects under the Wood Energy Business Scheme in 2007-2008.

### The FCW is working to expand the market for timber products

**1.29** In February 2007 FCW identified the need to put in place mechanisms to ensure that its own broadleaved woodland is managed in a sustainable way which:

- complies with UK Woodland Assurance Standard (UKWAS) and Forest Stewardship Council criteria, and enhances biodiversity;

- markets suitable broadleaved woodland parcels to small end users across Wales; and

- raises the profile of FCW as an expert body in the management of broadleaved woodland.

**1.30** The UKWAS, launched in May 1999, is an independent certification standard for verifying sustainable forest and woodland management in the United Kingdom. Forest Stewardship Council certification is intended to ensure that forests are managed in a way which guarantees the long-term supply of timber



and both protects the environmental integrity of the forests and supports the livelihoods of those working within the sector. The FCW has been part of UKWAS since its introduction in 1999 and has received no overall adverse opinions during these audits.

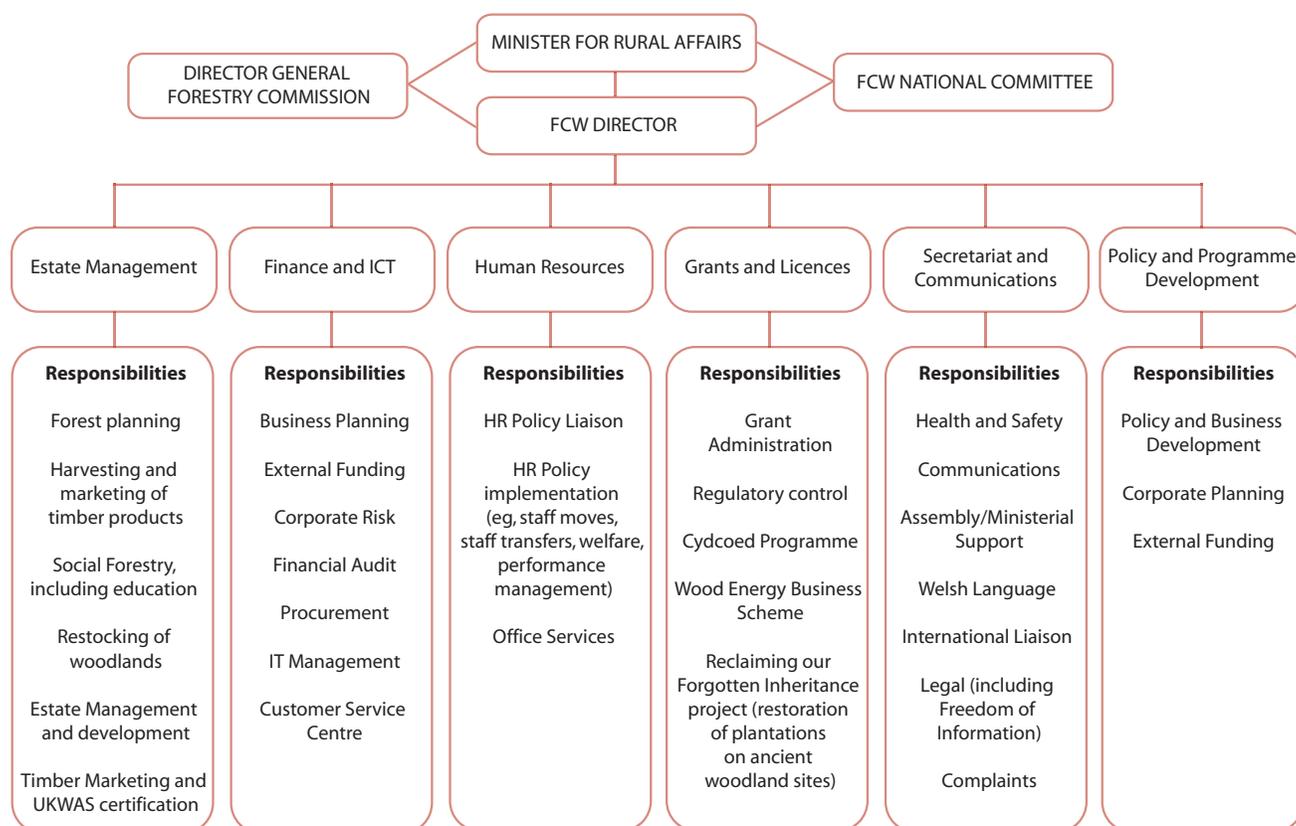
- 1.31** To meet this need, FCW have recently appointed a part-time broadleaf marketing manager to support and advise FCW field staff, establish a network of small hardwood customers throughout Wales and the borders, and to develop a sales and marketing plan for FCW's hardwood estate. Other relevant initiatives include FCW's project work with, and funding for, Coed Cymru, a charity which seeks to develop new markets for hardwood projects.
- 1.32** The FCW has also provided £300,000 to the Wales Forest Business Partnership (WFBP). The WFBP is a business led partnership, in which the Director of FCW plays an *ex officio* role, and has two main strands of activity. Firstly, the partnership aims to develop marketing strategies for Welsh wood products. The second strand, which operates as Wood Knowledge Wales, is intended to stimulate research and development within the timber industry. Coed Cymru reported using funds provided through Wood Knowledge Wales to disseminate technical information to key stakeholders about product development within the timber industry, for example, through workshops and seminars.

## The FCW has used the opportunities provided by the governance arrangements under which it is part of FCGB and also a 'virtual' division of the Assembly Government

### Current legislative constraints mean that FCW operates within a complex set of governance arrangements

- 1.33** Forestry policy is a devolved matter, which falls within the remit of the Assembly Government. However, FCW has remained a part of the FCGB (see footnote 1), while also being frequently described as a 'virtual' division of the Assembly Government. The FCW essentially acts as the Assembly Government's forestry department. However there are also a series of 'reserved matters', which are dealt with by FCGB and whose costs are wholly funded by the UK Government:
- international forestry issues;
  - forestry standards;
  - forest research;
  - plant health and forest reproductive materials;
  - statistics; and
  - trade issues.
- 1.34** Governance arrangements have been put in place to support operational arrangements which face both in to the Assembly Government and out to FCGB (Figure 5). The Director of FCW reports to the head of the Assembly Government's Department for

**Figure 5 – The governance arrangements within which FCW operates face both into the Assembly Government and out to FCGB**



Rural Affairs and Heritage on progress against strategic objectives (as set out within *Woodlands for Wales*) and performance against budget. The Director of FCW sits on the Department’s senior management team and is represented at the monthly Ministerial Policy Board Meetings.

Rural Affairs and Heritage. The FCW Director’s personal objectives are a combination of Assembly Government forestry targets set out within *Woodlands for Wales* and a number of FCGB corporate targets such as diversity and communications.

**1.35** However, FCW’s Director also reports to the Director General of the Forestry Commission at a GB level, with the Director General of the Forestry Commission holding direct line management responsibilities for the Director of FCW. In order to form a judgment regarding the performance of FCW’s Director, the Director General of the Forestry Commission will take advice from the head of the Assembly Government’s department for

**1.36** As forestry is a devolved matter, two of the current 11 Forestry Commissioners have direct responsibility for forestry matters in Wales, and report directly to Welsh Ministers on their activities in Wales. In addition to the Commissioners, the National Committee members include the head of the Assembly Government’s Department for Rural Affairs and Heritage, the Director of FCW and the chair of the Woodland Strategy Advisory Panel (WSAP), which includes



representatives from a wide range of interest groups, including the timber industry and environmental groups.

### **The FCW has developed an effective working relationship with the Assembly Government**

**1.37** Despite the potential complexities of the governance arrangements, most staff and external stakeholders we spoke to felt that relative roles, responsibilities and accountabilities were clear and had proved largely unproblematic. In order to regularise relationships, the Assembly Government and FCW established the Welsh Forestry Concordat in 2003 which the 2006 Memorandum of Understanding superseded. The Memorandum of Understanding outlines the responsibilities of key stakeholders such as the Forestry Commissioners, the National Committee and FCW. The FCGB identified the process of negotiating the Memorandum of Understanding as vital in developing mutual understanding of relative roles and responsibilities. The FCGB regards the development of the Memorandum of Understanding as an example of good practice, which could be applied elsewhere to deliver similar benefits.

**1.38** Examples of FCW and the Assembly Government using the Memorandum of Understanding to jointly deliver shared objectives include:

- the development of forestry policy in Wales which culminated in the *Woodlands for Wales* strategy; and
- under a Section 41 agreement with the Assembly Government, FCW's management of the National Wind Farm Programme (paragraphs 1.23-1.27).

## **The FCW makes good use of the opportunities provided by its links to FCGB**

**1.39** Despite potential complexities in the current operational and governance arrangements, FCW has made good use of the cross border links they provide. The FCW's involvement in UK-wide working groups has enabled them to identify future opportunities and learn from good practice (Figure 6).

**1.40** The FCGB provides a series of shared services – Human Resources, Finance, Information Technology and Business Services – across the three countries. There is joint direction through a series of Service Boards and each service is funded through individual service level agreements. The FCW reports that shared services received from FCGB are fit for purpose and reflect the interests of FCW. The FCW is represented on all Service Boards and the Director of FCW is a member of the Executive Board. While FCW has not carried out any formal benchmarking exercises to investigate the potential efficiencies of using an alternative provider, it has carried out more informal investigations of the potential benefits of working jointly with the Assembly Government to provide HR services but believes that the current delivery model provides a better level of service.

**1.41** There have been significant problems in preparing FCW's accounts for audit this year due to a single member of staff in FCGB leaving the organisation. This highlights risks arising from FCW's heavy reliance on a small number of key personnel for functions such as the annual accounts, and the need to strengthen succession and contingency planning.

**Figure 6 – Examples of benefits to FCW of involvement in UK-wide groups**

| GB level group                    | Examples of benefits for FCW  |
|-----------------------------------|---|
| Grants and licensing managers     | <p>The Grants and Licensing managers' group has been used as a forum for discussing the joint procurement of satellite data, with joint funding across the three countries of the cost of exploratory research into the available software.</p> <p>Staff working within FCW's Grants and Licensing unit have benefited from a database, primarily developed by FC England, to manage the enforcement of felling regulations. The FCW report that this database has supported the timelier and more effective management of cases of illegal felling by reducing the risk that cases are 'lost' within the system.</p> |
| Forest Management Officers' Group | <p>The Forest Management Officers' group has discussed recent problems with plant survival to identify potential solutions and good practice. The FCW has utilised Forest Research, which is directly funded by the UK Government, with the three countries jointly determining its research priorities, to identify best practice in optimising plant survival rates.</p> <p>The Forest Management Officers' group has also recently sought to identify the likely impacts of climate change upon a variety of spruce species across the UK.</p>   |
| Operational Services Group        | <p>The Operational Services group carried out work on the implementation of the Countryside and Rights of Way Act (2000), which applied across all three countries.</p> <p>The FCW staff also identified areas where they have drawn upon the additional capacity and expertise at a GB level. For example, guidance and training on the European Protected Species Directive was jointly developed with FC England.</p>  |

Source: Wales Audit Office



## Part 2 – The FCW needs to address a number of significant challenges

**2.1** To build on the positive progress it has made in responding to the broadening forestry agenda, FCW needs to address a series of challenges that centre on the need to develop a clearer corporate approach to running its business. The FCW needs to:

- link corporate strategy, priorities and resource allocation;
- strengthen its core business processes and integrate them with strategic objectives to support the effective management of the trade-offs implied by the widening forestry agenda;
- manage its resources effectively; and

- manage change effectively so that internal and external stakeholders have a clearer understanding of FCW's strategic direction and contribution to the delivery of forestry policy in Wales.

### The corporate strategy needs to link priorities and resources

**2.2** The FCW's corporate plan for 2005-2006 to 2007-2008 does not clearly prioritise activities and associated resource requirements. Staff also highlighted the need for FCW to clarify its priorities more effectively (Figure 7 and Appendix 4).

#### Figure 7 - The FCW staff highlighted the need for FCW to clarify its priorities

When asked to identify improvement areas, participants made the following comments:

- The way the objectives are listed implied they're equally important, but in reality some are considered more important than others.
- The objectives vary in their importance – some are considered very important, others are perhaps desirable with limited input and others again will be considered as handy by-products of other functions. To achieve against the overall strategy there needs to be a steering group set up specifically charged with overseeing implementation and progress and sorting out specifics.
- Stand up and say no occasionally. Prioritise projects.
- We need to enter into dialogue with the Assembly Government in setting our priority objectives, create the policy in which we are to deliver these and then remain focused in achieving these. We need to avoid setting off on delivering what we think the Assembly Government, stakeholders, public etc want and not attempting to deliver everything and subsequently achieving very little!
- We need to be clearer about our priorities when managing an area of woodland. The forest would be better served by focusing on particular activities in set locations.
- We need to be able to prioritise our objectives, so staff know what comes first, rather than we will do it all equally.
- We need to work harder at prioritising our objectives, due to the fact that we deliver a wide range of goods and services which frequently compete for resources internally.
- Priorities, willing to say no.
- The organisation needs to be more robust when making decisions and not think we can please everybody all the time.
- A greater understanding of priorities.

Source: Wales Audit Office focus groups with FCW staff

**2.3** The lack of clear priorities expressed through mechanisms such as the corporate plan means that the different parts of the organisation do not always appear to share the same view of FCW's strategic direction. For example, staff reported tensions between the Forest Districts and FCW's Grants and Licensing Unit around the sign off of FDPs<sup>13</sup>. This tension centred on how much of the forest should be restocked with timber for commercial use, and how much should either be deforested or be restocked with less commercially attractive species. While the UK Forest Standard provides high level guidance on some of these issues, stating that 10 to 20 per cent of the forest should remain as open space, FCW does not have any internal guidance on how to interpret this requirement nationally or within individual areas of forest.

**2.4** The lack of clarification of strategic priorities can lead to internal conflicts, but also operational risks because issues such as harvesting, deforestation and restocking have not been adequately addressed. The FCW has committed itself to increasing the amount of broadleaved woodland planted within Wales but some staff are concerned that this was not accompanied by a clear explanation of the reasons for this, for example whether the intention was solely to enhance biodiversity or both to enhance biodiversity and provide a commercially viable broadleaved crop. Clarity is important to inform the approach to managing the broadleaved estate on the ground. Staff also linked the lack of clarity about priorities to confusion about the delivery of certain objectives.

## **Core business processes need to be strengthened and integrated with strategic objectives so that trade-offs can be managed in support of FCW's widening agenda**

### **Business planning should be driven by corporate objectives rather than by financial considerations**

**2.5** The FCW's business planning is essentially driven by financial considerations. Cost centre managers develop three year business plans which are reviewed on an annual basis, and monitored during the year by the Finance Department. This process is designed to challenge cost centre managers' forecasts and ensure that variances are reported. We found that cost centre business planning documents are in effect budgetary submissions, driven by the need to maintain current services and facilities within a set budget. This financially driven approach risks compromising FCW's ability to respond to the changing forestry agenda. A recent Internal Audit Report found no clear links between the corporate plan and the internal business planning system. Consequently, FCW needs to develop a more corporate approach to business planning, by ensuring that the corporate business plan is developed with clear reference to the corporate strategy (rather than simply reflecting cost centre business plans), and that cost centre managers clearly understand how their own business plans support the delivery of the corporate plan and strategic priorities.

<sup>13</sup> The FCW's Grants and Licensing unit act as the regulator for both the private and the public forest estate in Wales, and as such they are located outside of the Forest District units. As the regulator, Grants and Licensing have to sign off on all FDPs submitted by the Forest Districts.



**2.6** Acknowledging the need to strengthen its business planning processes. The FCW has recently set up a Policy and Programme team with a Policy and Planning Manager. This team is intended to ensure that there is clear alignment between the revised *Woodlands for Wales* Strategy, FCW's corporate plan and the corporate business plan. The introduction in 2007-2008 of ABO (through which programmes and the resources needed to deliver them are classified on the basis of the strategic objective they are expected to deliver) means that FCW should develop a clearer understanding of how current expenditure reflects its strategic objectives.

**2.7** The FCW needs to develop a robust process for the development and evaluation of business cases which makes explicit links to corporate strategy, as we found examples of where major projects were not supported by formal business cases when opportunities fell outside the annual budget setting process or funding became available at short notice. For example:

- The FCW recently utilised EU funding to redevelop the Visitor Centres at Nant yr Arian and Coed y Brenin without formal Business Cases. Consequently FCW did not explicitly consider how to meet the ongoing revenue costs of these centres beyond the end of the grant. The FCW have taken the decision to meet these ongoing revenue costs having been aware of the likely costs from the previous Visitor Centres.
- The Assembly Government provided short notice of its intention to make FCW responsible for the National Wind Farm Programme, which meant that there was insufficient time to construct a business case to support the delivery of the programme. On agreeing to deliver the National Wind Farm Programme, FCW did

not have funding within its baseline budget to cover the costs of managing the initial procurement. However, FCW was confident that it could meet the estimated one-off delivery costs of £0.5 million from existing resources. The FCW sought and secured Assembly Government approval for this use of existing resources.

- The Wales Audit Office's 2005-2006 Management Letter reported that FCW had purchased specialist capital equipment costing just over £0.5 million at the year end without a business case. The FCW reports that such examples reflect the limitations of a funding agreement which precludes it from carrying forward resources, and that they are moving away from an approach which leads to year end spending.

### **Performance management at both an individual and a corporate level needs to be robust and aligned with strategic objectives**

**2.8** It is important to link strategic priorities at the corporate level with the objectives of individual members of staff, so that each understands their own individual contribution to the success of the organisation. For those operating as Forest District Managers, FCW has sought to ensure that individual objectives are clearly aligned to strategic objectives, as the objectives set for Forest District Managers are grouped under the same headings used within the corporate plan. However this approach has not been cascaded to staff of all grades within the Forest Districts. Outside the Forest Districts some of those acting as line managers have sought to align corporate plan objectives and individual objectives, but this reflects line managers' individual working preferences rather than a clear corporate approach. Some line managers told us that the absence of a clear corporate sense of direction and

priority made it difficult to align corporate and personal objectives. Some said that this made it difficult to manage staff, as they were unable to clearly articulate to staff why they should be doing some things and not doing others. The establishment of the Policy and Programme team intends to develop a common approach and direction to ensure that the corporate direction is reflected in individual job plans.

**2.9** Corporate performance management arrangements also need to be more robust. For a wide range of key business areas, FCW does not undertake benchmarking with external bodies such as the Forestry Commission in Scotland and England, or with other public bodies. Nor do they undertake internal benchmarking exercises, for example, FCW have not carried out benchmarking exercises across the four Forest Districts within Wales. Consequently, the organisation's management is not supported by a clear understanding of its current performance, capability and scope for improvement.

**2.10** We found that there was not a clear thread between *Woodland for Wales* indicators, Corporate Plan Indicators (CPIs) and KPIs. Such lack of clarity creates a number of problems in tracking delivery. The general absence of direct links between *Woodlands for Wales* indicators and KPIs makes it difficult for the Assembly Government to assess FCW's performance in delivering against the key forestry strategy for Wales.

**2.11** In acknowledging the need to develop a simpler and more strategic suite of performance indicators that better reflect what it is doing and why, FCW has rationalised the number of KPIs used to assess performance. Over the period 2006-2007 to 2007-2008 FCW reduced the number of KPIs from 30 to 24. However FCW still needs to develop a

better fit between the KPIs that it uses to assess performance and its corporate plan and *Woodland for Wales* indicators. Once the current revision of the *Woodlands for Wales* strategy is complete FCW need to ensure the alignment of KPIs with its corporate plan and the Assembly Government's forestry policy. The development of new measures would benefit from a fundamental review of the purpose of FCW and the measures that best reflect demand for services and outcomes, for example through the development of a Balanced Scorecard.

**2.12** There have been some inconsistencies in the KPI measures used by FCW because of the removal of some KPIs, addition of others and changes in the definitions of some indicators between years. This can make it difficult to compare trends in performance between years, exacerbated by inconsistent referencing of KPIs by FCW between years. The FCW would benefit from a review of its key measures, with a view to linking its core purpose with a smaller but more focused suite of measures that measure progress against strategic priorities. Staff should be fully involved in developing such a suite of core measures as they are closest to the work and need to have full ownership of the measures.

### **Procurement practices require greater central co-ordination and should draw upon relevant expertise**

**2.13** Recent audit testing identified a number of problems with FCW's procurement which were both general or specific to haulage procurement ([Figure 8](#)).

**2.14** Our fieldwork for this report identified further issues relating to procurement, specifically the need for FCW to make greater use of relevant expertise and to develop a more co-ordinated approach to procurement activity. We found that:



**Figure 8 – Recent audit testing of FCW’s procurement regime**

#### **General findings on procurement**

Internal Audit and our own audit work has identified a number of procurement problems which fall into the following themes:

- significantly exceeding stated contract values, for example on one contract the cumulative value was nearly 10 per cent (£3,523) above the contract value; in 2005-2006, of 10 contracts tested, two had cumulative expenditure of £33,602 – five per cent – above the contracted value of £618,000;
- using extensions to increase contract volumes without re-tender;
- poor record keeping, for example no Invitation to Tender records or Competent Supplier Questionnaires on file, or failure to record approval by the appropriate manager when the cheapest quote was not taken; and
- six out of seven contracts examined failing to receive the minimum three tenders (two had only two tenders received, three had no evidence of a tender exercise and one was managed by an external Landscape Architect but no records of the outcome of this were held on FCW files).

#### **Haulage procurement**

In 2006-2007, we examined the procurement of haulage support, and identified a number of specific problems:

- there was no formal tendering process for haulage contracts, which created the risk that FCW was limiting the prospective market for haulage services and was not obtaining the best value for money; FCW has recently carried out a tender exercise for haulage;
- testing of a sample of five procurement contracts with a total value of approximately £81,000 identified that in all five cases the contract was not awarded in line with FCW procedures, and that for four of the five contracts FCW incurred expenditure before signing the contract; and
- in 2006-2007, FCW overspent its haulage budget of £462,000 by £79,000 (17 per cent).

*Source: Wales Audit Office Management Letters 2005-2006 and 2006-2007; FCGB Internal Audit report November, 2007*

- Traditionally, some of FCW’s procurement has been undertaken at an individual unit or district level with no central co-ordination. This leads to risks to value for money as FCW is not able to identify opportunities to secure efficiencies of scale. This approach also opens up internal market competition as units and districts compete against each other and against EU projects. However, FCW has made significant progress in centralising some aspects of procurement; in 2000 FCW established the Welsh Harvesting and Marketing team to co-ordinate contracts for both the harvesting and selling of timber. The FCW has also recruited a procurement specialist to further integrate procurement activities across business units.
- The FCW does not make adequate use of tender processes, for example there is no formal approved contractors’ list for Wales that has been tendered for, evaluated, reviewed and periodically re-tested against the market. This is a weakness in terms of sustainable local procurement in line with Assembly Government priorities.
- The FCW regards the lack of an all-Wales Procurement Strategy as a key priority over the next five years.
- The FCW does not have a central tender register in place to record the details of each tender exercise performed by FCW (for example, to record key dates, number of tenders received, record of successful tender and who opened each tender). Instead, tender sheets are held on the procurement files in each unit or district which makes monitoring and ensuring compliance difficult. Although FCW has now put in place a contracts database maintained by finance staff, a recent Internal Audit report identified that it was not kept up to date.

## Figure 9 – Better Woodlands for Wales grant scheme

In 2007, BWW replaced the UK-wide Woodland Grant Scheme (WGS), which was launched in June 1988 and closed to new applications at the end of August 2006. In 2007-2008, FCW made grants to woodland holders valued at £0.24 million, against a budget for that year of £0.73 million. Better Woodlands for Wales is a specifically Welsh scheme, the criteria for grants are clearly aligned to the objectives of the *Woodlands for Wales* strategy, with grants for social forestry and the protection of native woodlands alongside grants for the more traditional economic aspects of forestry. Scheme design was supported by a stakeholder group representing a wide range of interests.

A core principle of BWW is that effective woodland management requires a sound long-term management plan. Owners wishing to enter the scheme are given grant-aided professional help to prepare the initial application, a Foundation Plan, and subsequently a final five-year Management Plan.

Once a Management Plan is approved and signed by the owner, a Plan of Operations contract is issued which sets out in detail the work to be performed each year and the grants payable for each piece of work. In this way, FCW has a much better understanding of the level of grants committed going forwards. The BWW is a 'use it or lose it' scheme, which means that the grant has to be claimed in the year set out in the plan or it is lost. This long term Management Plan must meet the minimum standards under the UKWAS. The five-year plan is supported by a 20-year 'vision' for the management of the woodland.

The Assembly Government and the European Union (through Objective One) core fund the scheme. The FCW report that the current revision of the *Woodlands for Wales* strategy is likely to require refinement of the BWW scheme to ensure that the work it funds continues to reflect the objectives of the Assembly Government's vision for woodlands in Wales.

Source: The FCW

- However FCW does not routinely draw upon external capacity support for procurement, for example through FCGB's central procurement expertise and Value Wales. It has only drawn on FCGB expertise to support large scale procurements such as the wind farm contracts and establishing long-term contracts for timber sales.

**2.15** To address these procurement problems, FCW is appointing a specialist procurement officer to further develop capacity in this area. It is important that the new procurement officer has strong corporate support to deliver the changes needed with regards to procurement. The new adviser could consider the potential to apply the benefits of larger scale procurement, for example the National Wind Farm Programme, to more routine tender exercises, such as for long-term timber contracts.

### Grants need to be effectively monitored to ensure that they are delivering in line with the objectives of the BWW Scheme

**2.16** The FCW is responsible for administering a range of woodland grants, including the BWW Scheme (Figure 9). Other examples of grants administered by FCW include the Wood Energy Business Scheme and funding under the Reclaiming our Forgotten Inheritance project, which provides grants to woodland owners who wish to restore Plantations on Ancient Woodland Sites (PAWS) back to native woodland.

**2.17** Prior work by both Internal Audit and the Wales Audit Office found that FCW operated appropriate processes to ensure that grant applicants complied with the terms and conditions of grants<sup>14</sup>. However, we identified a number of ways in which FCW needed to improve its evaluation of woodland grant schemes to ensure a better understanding of whether such grant schemes deliver or are well placed to deliver their intended outcomes

<sup>14</sup> Work by the Wales Audit Office in 2005-2006 did not identify any major concerns with the systems in place at FCW for monitoring compliance with the terms and conditions of grants. Internal Audit reviewed the WGS annually, and in recent years they have not identified any major points of concern in the processes in place at FCW for monitoring compliance (although they made recommendations for improvement). Internal Audit also carried out early testing of the BWW scheme. Their 2006-2007 high level interim review concluded that the risk management and control framework to deliver BWW was reasonably sound.



**Figure 10 – The FCW has taken steps to improve its management of risk**

- Risk is considered at each Management Board meeting.
- The FCW has commissioned an external consultant to work with Internal Audit compiling Business Continuity Plans (a key risk highlighted by FCW).
- An Audit and Risk Committee (ARC) was set up in 2006-2007 with two non-executive members and attended by internal audit, external audit, the Director Wales and Head of Finance. Risk management is a standing agenda item for the ARC.
- The FCW has made a significant investment in risk management training for staff and have introduced specific risk management software.
- The FCW has a Corporate Risk Register in place which provides a high level summary of key business risks. It is updated annually and developed in conjunction with Senior Responsible Officers before being shared with FCW's own risk management group.
- Although other major projects are encouraged to use the Corporate Risk Register format, only the National Wind Farm Programme has developed its own risk register which FCW report is updated approximately monthly.

Source: Wales Audit Office

and to speed up the process of moving from application to approval of management plans:

- The BWW has only been operational since 2007 – the nature of woodlands means that scheme outcomes may take time to emerge. The BWW entry criteria specifically reflect *Woodlands for Wales* objectives. Nevertheless, FCW needs to develop a series of performance indicators for their grant schemes which measure and report progress against outcomes, rather than performance against aspects of process, such as the area of woodland covered by schemes and expenditure on them. The FCW acknowledges that it still needs to identify the most appropriate way to measure the outcomes of BWW, and determine relevant indicators.
- To ensure that it meets relevant KPIs, FCW needs to better understand the barriers experienced by applicants in moving towards submission of a fully worked up Management Plan and provide appropriate support. Public submissions and interviews with external stakeholders also suggested that some involved in commercial forestry consider the BWW scheme too complex and, therefore, change to be necessary.

### **There is scope to improve risk management**

- 2.18** Risk management within FCW operates at a Wales level and within the context of FCW's links to FCGB through a GB level Risk Management Group, which meets approximately two or three times a year. The FCW's own Risk Management Group meets annually. These structures are part of relatively new risk management arrangements FCW introduced from 2005-2006, which have resulted in improvements in risk management (Figure 10).
- 2.19** However, there remains scope for further improvement in how FCW responds to key business risks. The FCW's Risk Management Group meets on an annual basis which may compromise its ability to respond to risks as they emerge during the year. This is particularly important in respect of timber sales which represent approximately one fifth of FCW's income (£9 million per annum). Timber prices are volatile and fluctuate throughout the year in response to factors such as supply and demand, and exchange rates. Similarly, take up of FCW's grant schemes depends on factors such as whether the landholder can derive a greater profit from using the land in other ways. We consider the annual review of risks relating to timber sales

and grants insufficient to identify likely variations in a timely fashion, for example the over felling that took place in 2004-2005. There is a need to consider separate underlying risk registers and risk owners for key business areas such as timber and grants, and for these to be subject to a high-level review, that goes beyond day-to-day monitoring, on at least a quarterly basis. To support this more proactive process of risk management, FCW needs to develop systems which more effectively capture and monitor emerging risks and opportunities during the year, as well as linking them more closely with its corporate objectives.

## The FCW needs to manage its resources effectively

### The FCW and the Assembly Government need to develop a long-term and strategic approach to financial planning, particularly in the light of financial pressures

- 2.20** The net deficit funding arrangement put in place by the Assembly Government, whereby FCW is reliant on income generation to balance its books, does not support a strategic, planned use of resources. Between 2008-2009 and 2010-2011, FCW estimates that it will require between £43.6 million and £46 million to run its business. **Figure 11** shows that the Assembly Government is the largest single funder of FCW – providing baseline funding of approximately £22.5 million per annum.
- 2.21** The FCW funds the difference between expenditure and baseline funding from a range of European grant streams and from the sale of timber. Income from timber is uncertain, as prices are subject to significant fluctuations. Under net deficit funding, the Assembly Government may provide FCW with funds beyond its baseline. However, FCW

cannot guarantee that should timber income fall below the level forecast the Assembly Government will increase the amount of funding provided. Effectively, the Assembly Government has a short-term approach to funding an organisation with a long-term business cycle.

- 2.22** The potential for timber income to fall below forecast levels and uncertainties as to whether and to what extent the Assembly Government will provide additional funding over and above the agreed annual baseline exposes FCW to the risk that it will have insufficient funds to meet its ongoing liabilities. The FCW seeks to mitigate the risk of a funding shortfall in a number of ways but this approach tends to lead to a short-term and less strategic approach to expenditure.
- 2.23** For example, considerable procurement activity takes place at the end of the financial year to use up surplus budget. This reflects a planned expenditure profile weighted to the latter part of the year to reflect the dependence on receipts from timber and the consequent risk of exceeding budgets if timber receipts are lower than expected. **Figure 12** shows that for all areas of expenditure in 2005-2006 and 2006-2007, there was a heavier expenditure towards the year end. Waiting until later in the year before committing itself to expenditure, when FCW is more confident about timber income creates the potential for expenditure to reflect short-term decisions at the year end with the allied risk of poor procurement planning and consequently poor value for money.
- 2.24** The FCW also seeks to mitigate the risks associated with a potential shortfall in timber income through short-term approaches that may compromise value for money. These include:



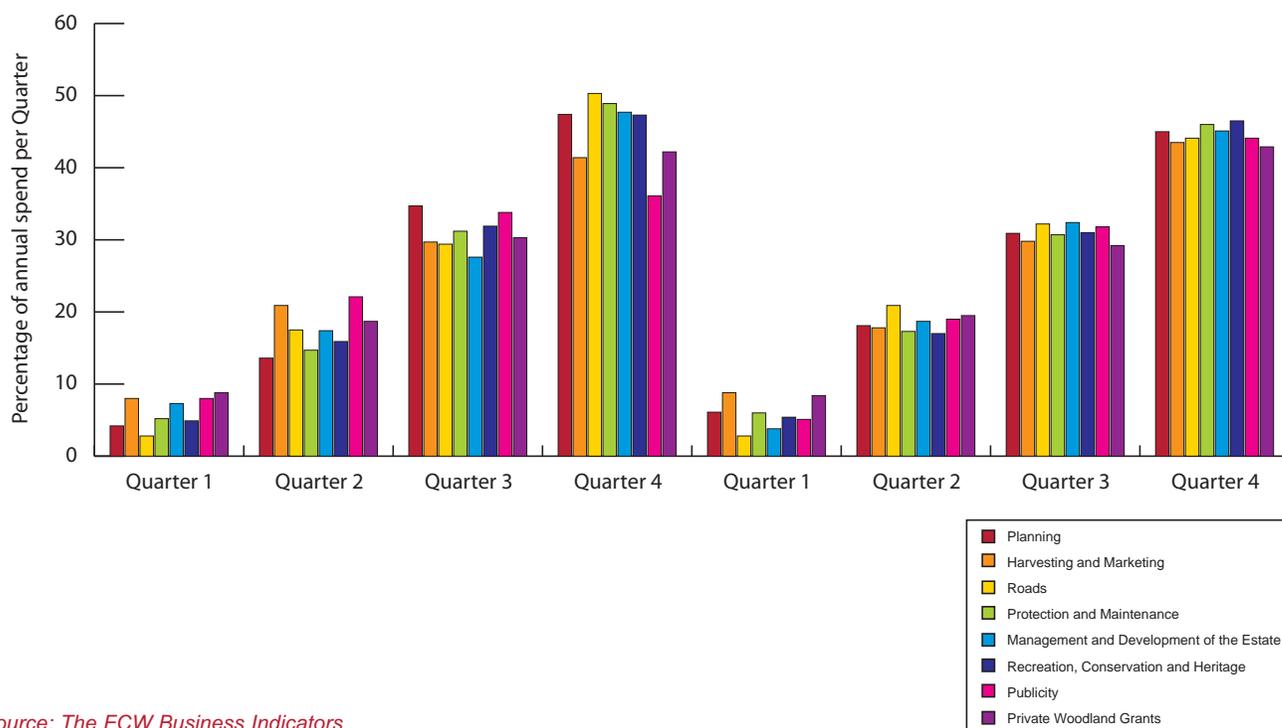
**Figure 11 – The FCW’s forecast income and expenditure for 2008-2009 to 2010-2011**

| Forecast (£'000)  | 2008-2009       | 2009-2010       | 2010-2011       |
|---|-----------------|-----------------|-----------------|
| <b>COSTS</b>  |                 |                 |                 |
| Forest Planning   | 2,065           | 2,021           | 2,012           |
| Harvesting (including Roads)                                  | 8,249           | 8,280           | 8,305           |
| Public Estate Management, Protection and Maintenance          | 8,577           | 9,224           | 11,201          |
| Social and Environmental Forestry                             | 7,277           | 6,967           | 6,884           |
| Grants, Licensing and Private Sector Partnerships/Projects    | 8,069           | 7,004           | 7,078           |
| Central services from the Assembly Government and FCGB        | 3,386           | 4,435           | 4,338           |
| Capital   | 1,329           | 474             | 482             |
| Surrender of Net Windfarm Receipts to the Assembly Government | 1,400           | 1,400           | 1,400           |
| <b>Total Costs</b>  | <b>40,352</b>   | <b>39,805</b>   | <b>41,700</b>   |
| <b>INCOME</b>   |                 |                 |                 |
| Timber Sales  | (12,555)        | (12,456)        | (12,489)        |
| Windfarm Receipts   | (1,900)         | (1,900)         | (1,900)         |
| EU Grants/Co-financing  | (1,215)         | (807)           | (790)           |
| Other   | (2,149)         | (2,109)         | (3,988)         |
| <b>Total Income</b>   | <b>(17,819)</b> | <b>(17,272)</b> | <b>(19,167)</b> |
| FCW Deficit   | 22,533          | 22,533          | 22,533          |
| Assembly Government Baseline Funding                          | (22,533)        | (22,533)        | (22,533)        |
| <b>Shortfall</b>  | <b>0</b>        | <b>0</b>        | <b>0</b>        |

Source: Wales Audit Office analysis of FCW data

**Figure 12 – The FCW’s expenditure profile for 2005-2006 and 2006-2007 was weighted towards the latter part of the year when there was greater confidence about income levels**

Proportion of annual expenditure in each quarter for 2005-2006 and 2006-2007

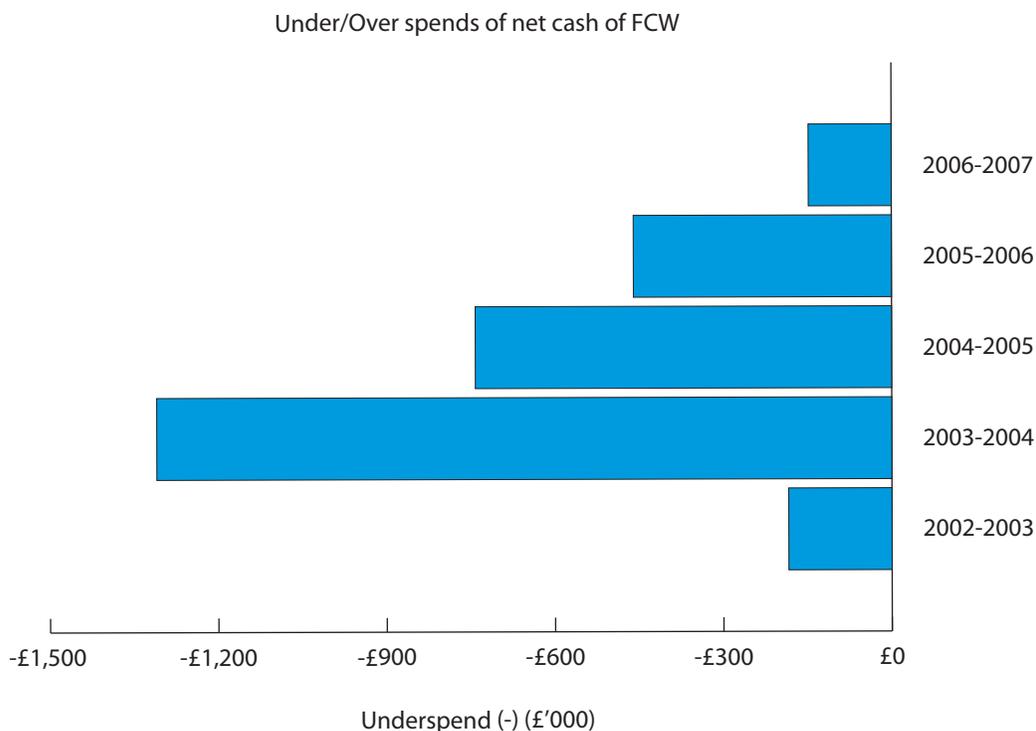


Source: The FCW Business Indicators

- Procurement decisions are made on an annual rather than longer-term (for example three-yearly) basis.
  - The FCW has limited capital budgets. The FCW reported that where there is pressure on budgets or shortfalls in timber income, capital is often sacrificed to the extent that there has been little or no capital budget in some years. Similarly the reverse also occurs, with the capital budget ‘topped up’ if timber income exceeds the level forecast. Between 2004-2005 and 2006-2007, FCW allocated a total of £1.39 million to its capital budget, but as a result of the strong timber market actual capital expenditure more than doubled to £2.86 million.
  - Short-term decision making to reflect market fluctuations. For example, when a weak timber market means that timber income falls below the level forecast, the tendency is to work ‘good’ areas that are cheaper to work and more profitable, rather than to fell areas in accordance with FDPs and wider forestry objectives.
- 2.25** The Assembly Government does not currently allow FCW to hold reserves although it is able to carry forward two per cent of its net cash requirement. However, in recent years FCW has underspent by more than this without the Assembly Government reclaiming all of the difference (Figure 13). The introduction of reserves would allow FCW to develop a longer-term approach to financial planning and capital expenditure that better reflects the



**Figure 13 – The FCW has under spent its net cash budget each year between 2002-2003 and 2006-2007**



Source: The FCW Annual Report and Accounts 2002-2003 to 2006-2007

Assembly Government's growing emphasis on social and environmental, rather than economic objectives. Allowing FCW to hold reserves accrued when the timber market performed well should help FCW to manage its cash flow more effectively when markets are in decline, to plan large scale capital works more strategically and to manage the impact of the reduction in income since the volume of timber supplied in Wales was decreased in 2004-2005. The Assembly Government reports that it is examining how to give FCW greater year end flexibility, while complying with government accounting rules.

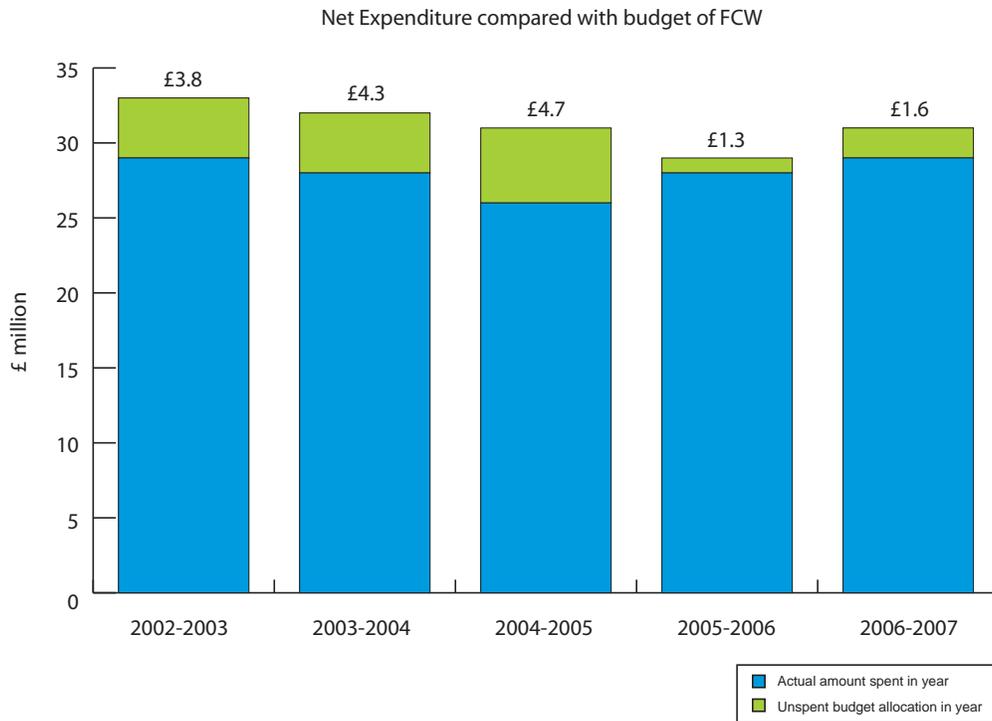
**2.26** Accounting for the cost of capital in FCW's Operating Cost Statement can act as a perverse incentive to investment in the public

forestry estate. Within its Operating Cost Statement, FCW allocates a cost of capital charge, which amounts to 3.5 per cent of the estimated value of the public forestry estate, and is ostensibly a charge upon FCW for using the estate<sup>15</sup>.

**2.27** Clearly the cost of capital settlement is very closely linked with timber prices which fluctuate according to the volatility of the international market. Recognising this, the Assembly Government has included within FCW's annual baseline funding agreement a relatively high cost of capital budget. Historically, this has enabled FCW to underspend its resource budget consistently and significantly (Figure 14).

<sup>15</sup> The charge is calculated at the Government's standard rate of 3.5 per cent in real terms on the average carrying amount of all assets less liabilities, except for cash balances held by the Office of the Paymaster General and amounts due to be surrendered to the Welsh Assembly (FCW Accounts 2006/2007).

**Figure 14 – The FCW’s actual outturn against Net Cash Budget was consistently and significantly under-spent each year between 2002-2003 and 2006-2007**



Source: The FCW Annual Report & Accounts 2002-2003 to 2006-2007

**2.28** The value of the forest estate is predicted to rise in the near future. The FCW’s external professional valuer advised that for 2007-2008 the value of the plantations is likely to increase by 70 per cent from around £135 million to £230 million, which will increase the cost of capital charge. This becomes problematic if the annual baseline funding provided by the Assembly Government remains static and does not increase to reflect the additional cost of capital charges. There may then be a disincentive to invest in the forest estate because of the financial pressures that would arise from higher capital charges. However the Assembly Government reports that as part of the recent Resource Assessment Exercise, FCW is likely to receive additional funding, which will fully reflect the increasing cost of capital charges.

**2.29** The FCW’s financial planning tends to be short-term and poorly linked with its strategic objectives (paragraph 2.5). Developing robust medium-term financial planning is crucial because of the long life cycle of FCW’s major assets. The absence of any rigorous medium-term financial planning also compromises FCW’s capacity to measure trade-offs between potentially competing strategic objectives. For example, FCW is not in a position to assess the impacts upon income and expenditure should it decide, in the medium to long-term, to reduce its commitment to supporting the mainstream timber industry by taking a significant step away from planting and harvesting conifers towards planting and harvesting broadleaved woodlands.



**2.30** The FCW is introducing tools that should support more robust medium to long-term financial planning (Figure 15). The FDPs, U18 five-year production plans, restocking plans and the newly introduced BWW grant scheme (Figure 7) all allow income and expenditure to be projected more accurately on a longer-term basis. The five-year locked harvesting plan covers a longer timescale than the equivalent plans in England and Scotland, which cover a two-year period. The introduction from 1 April 2008 of ABO, which involves a full mapping of all areas of income and expenditure to FCW's objectives, should also improve strategic financial planning. Accounting by Objectives should enable FCW to monitor and assess the extent to which resource allocation reflects its strategic priorities and then begin to redirect resources to ensure better alignment with strategic objectives.

**The FCW needs to improve its corporate asset management to deliver value for money**

**2.31** We examined the way in which FCW managed its assets, primarily focusing on its buildings and fleet management. Our work on fleet management concluded that while FCW has satisfactory arrangements in place for fleet management, there remains scope for further improvement (Box 3).

**2.32** An internal estates Health and Safety audit in 2003-2004 reported that 'a considerable amount of work is needed to implement Forestry Commission policy on property management'. It also identified FCW as a significantly worse performer in property management compared with Forestry Commission England and Forestry Commission Scotland. The report highlighted that building maintenance plans were deficient, that buildings were not being properly managed and that resources were being directed elsewhere at the expense of

**Box 3 – Our fleet management work identified the following actions that FCW needs to take**

- develop performance indicators to assess progress in delivering their fleet management strategy;
- benchmark the performance of its fleet against that of other organisations;
- further improve those Business Cases used to support the purchase of light vehicles;
- more effective recording and monitoring of the reasons for repairs and maintenance and accidents to support corrective actions;
- ensure that extensions to lease hire vehicles are managed more cost effectively;
- review processes for ensuring that staff required to operate vehicles are entitled to drive;
- review the way in which pool cars are used, to identify ways to reduce hire car use; and
- work jointly with other public sector organisations in Wales to:
  - procure vehicles;
  - identify opportunities for shared use of pool cars;
  - provide in-house fleet management services;
  - establish hire car contracts; and
  - share repair and maintenance facilities (ie workshops).

*Source: Wales Audit Office review of fleet management*

works on buildings. The FCW acknowledged these issues and in response set up a property management database (Property Manager) to record the details of all built assets and longer-term planned works. In June 2007, FCW also published a brief estates guidance document that outlined the relative roles and responsibilities of FCW staff for buildings management.

**2.33** Nevertheless, four years after the Health and Safety audit, asset management remains a bottom-up process driven by local managers. The FCW still does not have a corporate Buildings Asset Management Plan or Strategy in place to provide direction to cost centre managers and to allow joined-up procurement of capital works across FCW as a whole. The

absence of a medium-term, costed capital programme has not allowed FCW to apply for capital monies potentially available from the Assembly Government. Consequently, capital expenditure tends to reflect the vagaries of the timber market, and decisions are driven by financial considerations rather than a full analysis of buildings held and their fitness for purpose. Such an asset management strategy, which would need to be supported by appropriate measures of success and a capital programme and budget, should set out:

- the FCW's policy for building assets, for example whether they should be leased or owned;
- which buildings are needed, whether they are in the correct location and whether there are any surplus buildings;
- any further buildings required; and
- the scope of any works needed to ensure that current buildings are fit for purpose.

**2.34** The need for a clearer corporate strategy to develop the forest estate is reflected by FCW's acknowledgement that its estate is not currently located in the most appropriate areas of Wales. This is because the estate has developed over a long period of time, and was initially designed solely to meet the demands of the timber industry. Any accurate assessment of whether the current estate is in the right place (and thus whether FCW needs to acquire land in some areas, and dispose of land in others) presumes a clearer understanding of organisational priorities and the contribution of the estate to supporting those priorities. At present, whilst FCW has a policy for the disposal of ad hoc areas of woodland that may occur, it does not have a clear strategy for the repositioning of the estate over the longer term to ensure that the position and structure of the estate is

appropriate for current and future needs and objectives. In addition, under the current financial arrangements with the Assembly Government, FCW is unable to utilise any receipts from sales beyond the year of disposal.

**2.35** The Forestry Commission Scotland has developed a five year Strategic Policy agreed for repositioning of their forest estate and has therefore linked its disposals strategy to an acquisitions programme, and anticipates generating approximately £20 million from the sale of surplus woodlands for reinvestment in acquisitions.

**2.36** Recognising this, FCW is currently carrying out a portfolio analysis as a baseline assessment of how individual areas of the forest estate deliver against core objectives.

**The FCW has put in place appropriate foundations, but needs to further develop its timber production processes**

**The FCW is developing new approaches to forecasting**

**2.37** Timber income represents a significant amount of FCW's total income (£8.7 million in 2006-2007 and £8.2 million in 2005-2006), which makes it vital that FCW has robust processes in place to optimise income from timber sales and deliver its production plans. The FCW sells timber in two ways (**Box 4**), either as timber standing in the forest (known as standing sales) or as timber felled and presented at the roadside (known as direct production).

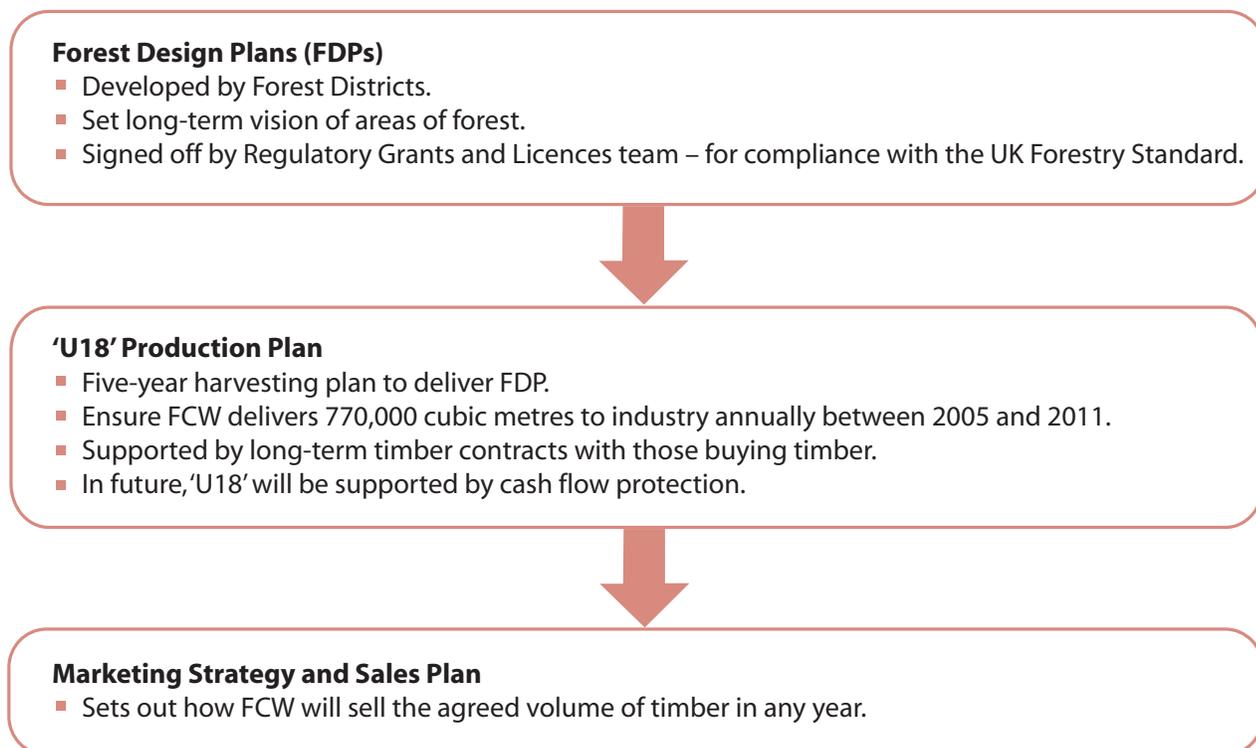
#### Box 4 – Direct production and standing sales

Direct production – the FCW sells timber at the roadside and carries out the harvesting itself, either through directly employed harvesting teams (fleet) or by using contractors.  
 Standing sales – trees are sold to customers standing and the customer organises all of the harvesting.

Source: Wales Audit Office



**Figure 15 – The FCW's processes to plan its timber production**



Source: Wales Audit Office

**2.38** Figure 15 shows the processes that now support FCW's timber production. Supporting the four Forest Districts' FDPs for each area of forest, the five-year U18 plan is a longer-term plan than the two-year plans used in England and Scotland which should help FCW reduce volatility. The U18 is currently being developed to include a cash flow prediction based on a net discounted rate, which should enable forest planners to understand the impacts of planning decisions both on production and income.

**Long-term contracts with those buying timber have delivered some benefits although the private sector remains concerned about timber forecasting**

**2.39** Another key objective of FCW is to support a sustainable timber industry in Wales. Private sector timber firms want FCW to produce accurate, long-term forecasts of timber volumes coming to the market so that they can plan and grow sustainable businesses. Since 1997 FCW has offered long term contracts to those buying timber, which are robust and appear likely to deliver improved value for money. These contracts are awarded for between five to seven years, and FCW has set up an independent panel to make decisions about which companies should be awarded long-term contracts.

This panel has an independent chair. Companies awarded long term contracts will be expected to:

- invest in e-business techniques, so that over the longer term FCW can secure efficiencies in payment transactions; and
- ensure high on-site standards, thus reducing the need for FCW to provide on-site supervision.

**2.40** Most of the first round of long-term contracts ended in 2005-2006 and covered a period when the market was falling, which meant that they gave FCW greater stability of income at a time of unfavourable market conditions. An FCGB Internal Audit review of 2006 noted that long-term contracts were sound and followed a risk-based approach with a comprehensive risk register in place. The new round of long-term contracts, awarded in 2007-2008, has been designed to ensure that entering into long-term contracts does not preclude FCW benefiting from increasing timber prices, as the value of the new long-term contracts is linked to timber prices through indices. While the first year base price equates to the tender price, future prices will reflect both the base tender price, plus an assessment by FCW of what the market price will look like in the longer term.

**2.41** Nineteen of the 28 public submissions to the Wales Audit Office's website set up as part of this study called upon FCW to improve the way in which it produced timber, managed the timber market and reflected concerns about the reduction in timber supply and the adequacy of, and adherence to, production forecasts. Although these comments may reflect concerns about the reduction in volumes of timber produced following the over-felling problems in 2004-2005 (paragraph 2.42), the submissions suggest that there may be scope for FCW to better

manage the expectations of the timber industry both now and in the future, particularly concerning the volume of timber they will take to the market. Specific concerns raised by those submitting their views to our website included:

- the FCW's decision to reduce the volume of timber it brings to the market;
- the perceived bureaucracy of the long-term contract system; and
- the FCW's management of its key timber customers.

### **The FCW needs to diversify its income streams to accommodate falling income from timber sales arising from reduced volumes to reflect problems of over-production**

**2.42** However, while FCW has some of the right foundations in place, there is a need to further refine certain areas of the production process. The most recent UKWAS certification report of 2006 stated that FCW needed to make an adjustment to avoid felling the more lucrative areas of the forest to enhance income. The report highlighted the over-felling in 2004 and 2005, the lack of proactively developed medium to long-term forecast information and the existence of a number of conflicting forecasts. Consequently, FCW has undertaken a number of actions to improve its approach to forecasting. This led to a reduction in their forecast level of timber production to 770,000 cubic metres per annum for the period 2007 to 2012.

**2.43** Our audit work also identified that FCW has allowed the amount of timber extracted from the forest to exceed the contractually specified amounts, which increases the risk that FCW may not be achieving the best return on its timber sales. In 2005-2006 we recommended that FCW should subject timber extraction contracts to formal review



once estimated timber volumes had been reached. The contracts could then be re-negotiated as necessary on the basis of current market prices. In 2006-2007, our audit testing of timber contracts found further problems for which FCW provided explanations (Figure 16).

**2.44** Although it argues that it sometimes makes commercial sense to exceed contract values, FCW does not have an understanding of the potential loss of income accruing from extracting timber beyond contract end dates, nor is there a robust basis for such decisions. Consequently, FCW needs to carry out a cost-benefit exercise on recent timber contracts to ascertain the effect on income of both extending contract end dates and extracting timber beyond the volume specified. This would allow FCW to better ensure that relevant decisions optimise timber income, and to have a better understanding of how they might most cost effectively manage timber contracts.

**2.45** There are also weaknesses in controls and guidance for staff as FCW has not set out a tolerance level within which staff can authorise excesses beyond contracted levels. The FCW accepts the need to ensure that when timber is extracted in excess of the agreed contract that this is a managed and planned decision, supported by a robust evidence base.

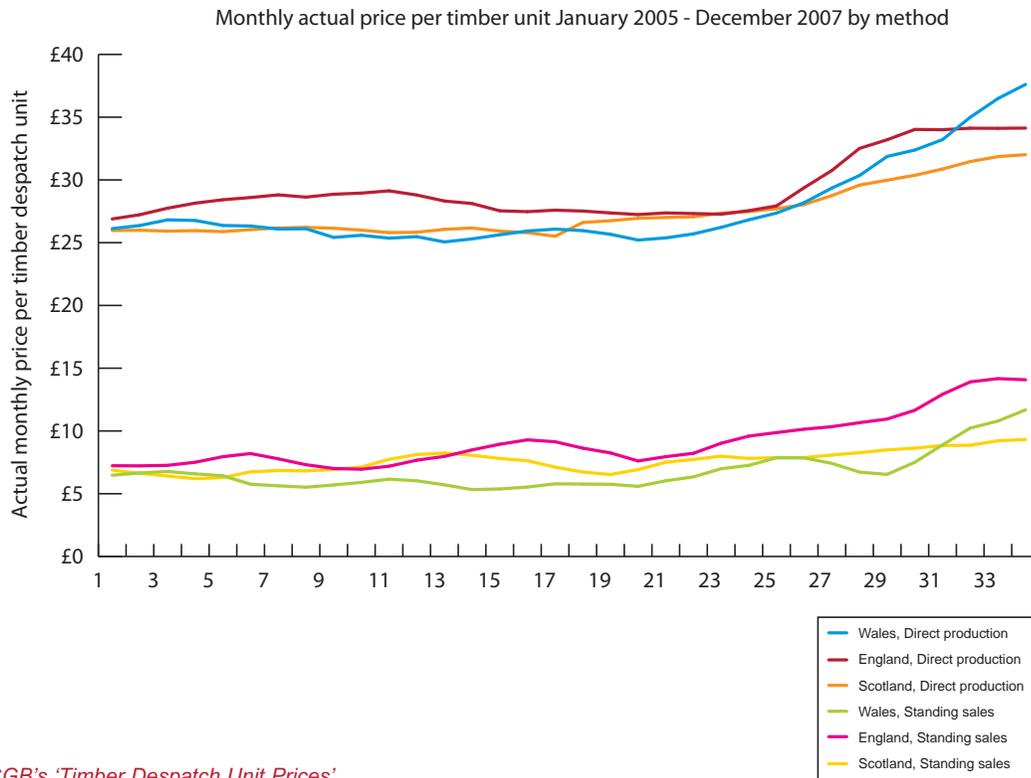
**2.46** Beyond developing more sensitive methods for forecasting timber prices and managing associated risks, perhaps through a computer-based model rather than manual systems, FCW needs to address a number of other issues relating to timber production. The FCW monitors price on a regular basis, using information from a number of indices. The FCW also uses other more remote indicators to judge how prices may move at future sales which among others include macro-economic factors, exchange rates and new housing starts in the UK to predict demand for carcassing, which is the main destination for logs. The FCW has achieved trends in price

**Figure 16 - Results of audit testing of timber contracts in 2006-2007**

| Audit Finding  | The FCW explanation   |
|--|---|
| <p>The FCW did not have sufficiently robust processes in place for monitoring the quantities of timber extracted from the forest estate in relation to the volumes specified in the contract, and the volume of timber extracted from the forest estate significantly exceeded the volume specified in the contract.</p> | <p>The FCW argues that extracting timber in excess of the volume specified in the contract is a function of the fact that standing timber is sold on the basis of estimated volume, and that the costs of putting in place processes to better estimate the volume of timber on any given standing sale site would be considerable. The FCW also argues that if it stops extracting timber at the volume in the contract they would be left with an area of trees which are in the poorer areas (as contractors fell the best trees which are cheap to fell first) and so these will then be more difficult to sell on as they are higher cost to work and so FCW will get a lower price. The FCW argues that it makes more commercial sense to force contractors to work the whole site while accepting that volumes extracted may not always comply with the specified volume, than put in place practices to ensure that the amount extracted complies with the contract specifications.</p> |
| <p>For some timber contracts, timber had been extracted from the forest estate subsequent to the individual contract end dates.</p>  | <p>The FCW argues that in a falling market it makes more financial sense to extend the contract rather than re-tender.</p>  |

Source: Wales Audit Office financial audit testing

**Figure 17 – Between January 2005 and December 2007, FCW achieved comparable average despatch prices as England and Scotland**



Source: FCGB's 'Timber Despatch Unit Prices'

comparative to the other two FCGB countries (Figure 17), which suggests that FCW is monitoring prices at least as effectively as the other two countries.

**2.47** The volume of sales via standing sales and direct production was broadly the same in 2004-2005. Following a variance in favour of standing sales in 2005-2006, the two methods have now been brought more in line with only a slight variance in favour of standing sales (Figure 18).

**2.48** Over the same period, the profitability per unit of standing sales has been marginally higher than for direct production but the two are now broadly in line (Figure 19).

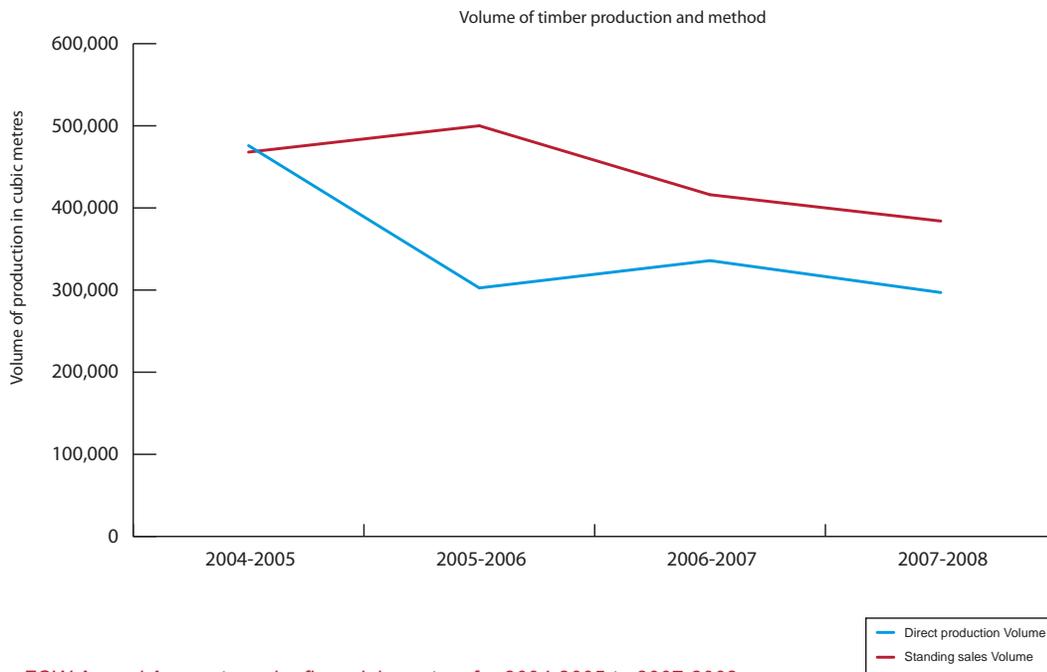
**2.49** The FCW argues that its strategy for the mix of production methods does not always allow it to optimise the profitability from sales. It argues that as a public sector organisation it is not purely driven by profit maximisation and also has to consider other factors such as:

- adherence to production forecasts;
- working within set design plans; and
- underpinning the timber industry/market.

**2.50** In addition, FCW has also identified a number of risks in moving towards selling all timber through standing sales, and a number of benefits from direct production (Figure 20).

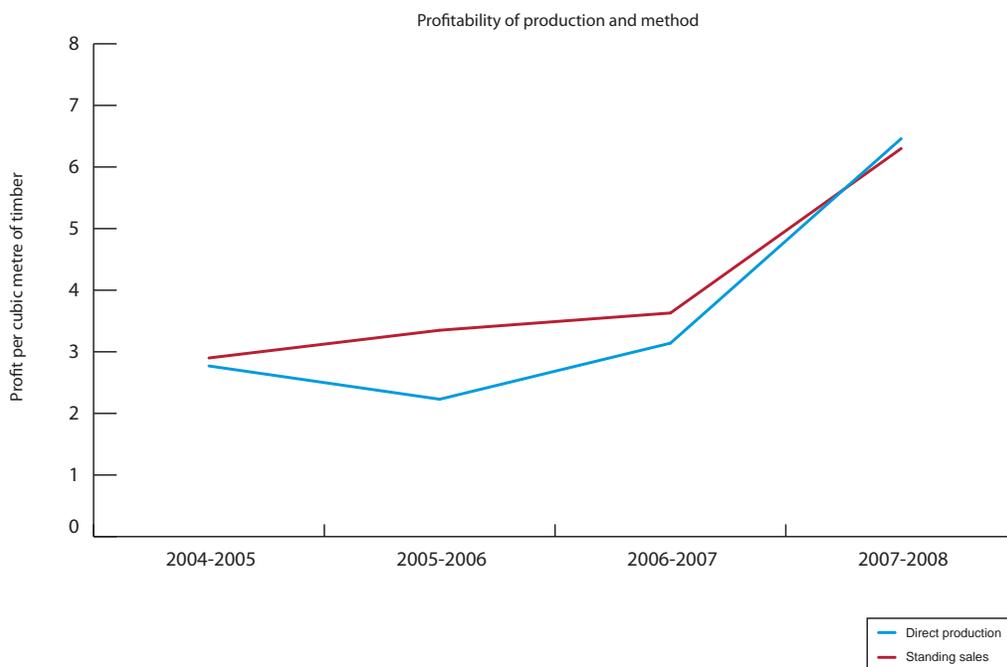


**Figure 18 – Volumes of timber produced by direct production and standing sales diverged but the gap is now closing**



Source: The FCW Annual Accounts and e-financials system for 2004-2005 to 2007-2008

**Figure 19 – Profitability per unit of standing sales and direct production methods**



Source: The FCW Annual Accounts and e-financials system for 2004-2005 to 2007-2008. This shows the profitability per unit sold (Gross profit divided by volume sold)

**Figure 20 – The risks and benefits of direct production and standing sales**

|                   |  |
|-------------------|--|
| Direct production | <ul style="list-style-type: none"> <li>■ In some difficult to work areas of the forest estate, standing sales are not attractive to potential bidders. Thus direct production is needed to ensure that difficult to work areas are harvested (and subsequently restocked) in line with FDPs. In turn ensuring that FCW is able to meet their objectives for any given area of the estate.</li> <li>■ Direct production allows FCW to innovate with new methods, whereas contractors determine their own approach under standing sales.</li> <li>■ Direct production gives FCW greater control over on-site Health and Safety because they have full control of the sites.</li> <li>■ Scope for the development of new markets, and to maintain a more competitive market than would be possible through exclusive standing sales.</li> </ul>   |
| Standing sales    | <ul style="list-style-type: none"> <li>■ There is some customer resistance to standing timber sales.</li> <li>■ A move to standing sales may result in disruption of the contractor and harvester market, and subsequent business failures and job losses.</li> <li>■ Reduction in income from direct production of timber may not be matched by a full reduction in cost as it may prove difficult to reorganise staff.</li> <li>■ Reduced ability to offer new contracts to existing markets.</li> <li>■ Inadequate capacity within the private harvesting sector to meet any further movement towards standing sales.</li> <li>■ Potential increase in price through the involvement of intermediaries.</li> <li>■ Loss of knowledge of production, with associated scope to test the market and possible loss of credibility.</li> <li>■ Potentially increased risks of environmental damage and health and safety risks.</li> </ul> |

Source: Papers to the FCW Management Board, June and October 2004

Any macro level analysis of the profitability of these two methods of production to support the marketing strategy would be complex and would need to reflect such variables as:

- the kinds of crop to be worked;
- site conditions;
- tree size;
- the different markets for timber;
- the FCW's wider marketing strategy; and
- the silvicultural systems on each site.

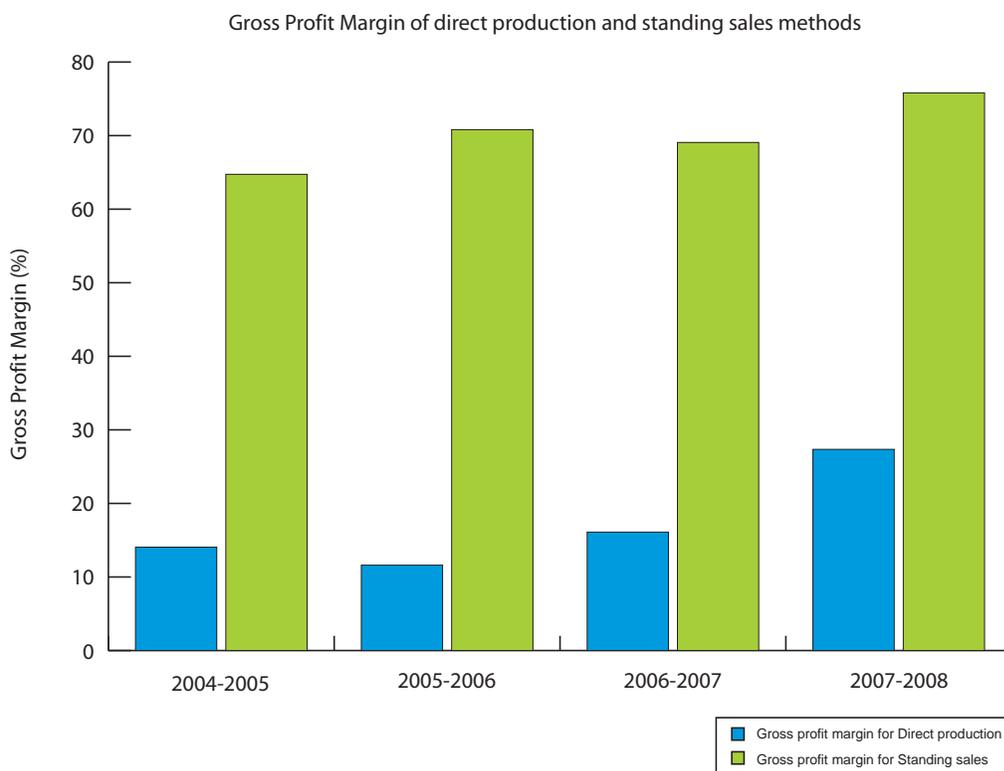
**2.51** In addition, taking account of the production costs of each method of sales, standing sales provide considerably higher gross profit margins than for direct production, indicating that this provides a more cost effective

method. **Figure 21** shows the variation on gross profit margin, which calculates gross profit as a percentage of turnover. The FCW highlighted that the higher cost of direct production, and consequently lower gross profit margin, arises mainly from the factors noted in paragraph 2.50. In addition, they note that direct production generally includes a higher proportion of the more sensitive areas that need intensive management whilst standing sales will generally only be worked if they show a reasonable profit margin.

**2.52** Consequently, there is scope to consider the potential opportunity to alter, where this is appropriate in the light of the factors set out in paragraph 2.49, the balance of standing sales and direct production and to demonstrate clearly the reasons for the split within FCW's marketing strategy.



**Figure 21 – Gross Profit Margin of standing sales and direct production methods (gross profit divided by turnover)**



Source: The FCW Annual Accounts and e-financials system for 2004-2005 to 2007-2008

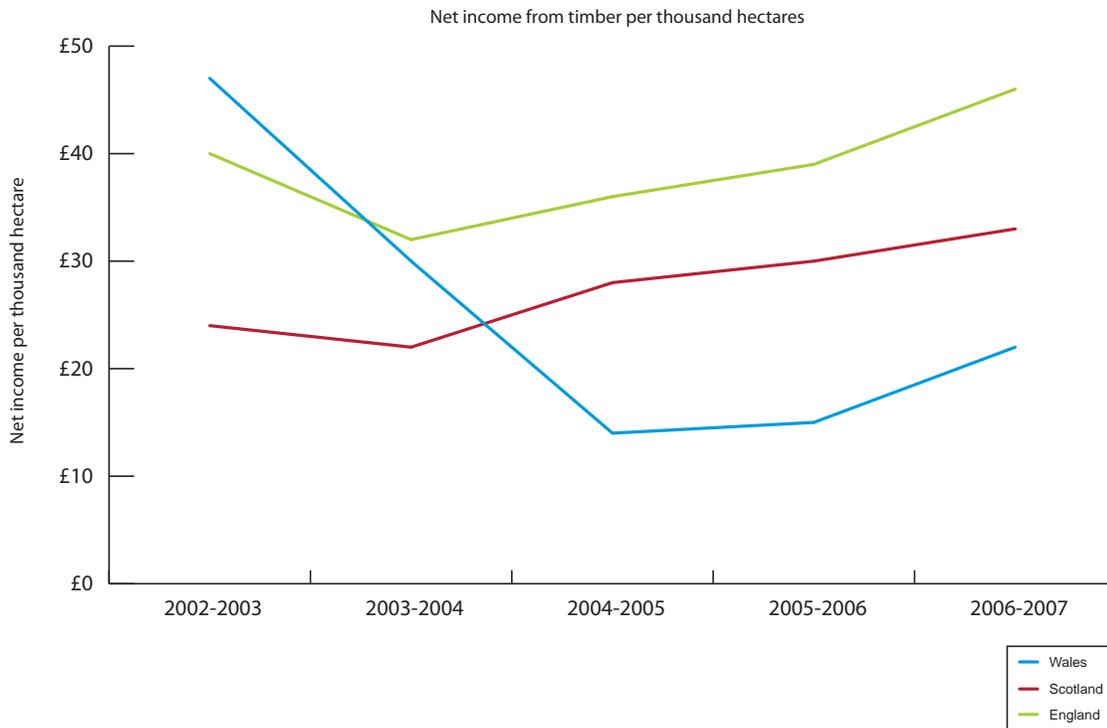
**2.53** The FCW has not undertaken an independent and comprehensive cost-benefit analysis supporting the current balance of direct production to standing sales and to incorporate the above factors. The FCW has a marketing strategy but needs to enhance this to support the current and future balance of direct production to standing sales.

**2.54** Figure 22 shows that FCW’s net income per thousand hectares has fallen from being the highest of the three countries in 2002-2003 to the lowest in 2006-2007. Volumes of timber sold in Wales have fallen significantly since 2002-2003 due to the general age and structure of the forests, whereas in England and Scotland they have remained relatively stable or have increased slightly. However, reductions in gross income from timber sales

in Wales have not been fully matched by reductions in the cost of sales. This is in contrast to England and Scotland where gross income has increased over the period but the cost of sales has remained relatively constant since 2002-2003, thus increasing net income. The FCW has noted that the cost of sales has been higher in Wales due to reducing economies of scale arising from the reduction in timber supply to 770,000 m<sup>3</sup> from 2004-2005 (from a previous level of 1,200,000 m<sup>3</sup>).

**2.55** While there is a legitimate rationale for the declining level of timber receipts, it is also clear that FCW needs to identify how it is going to respond to the risks to business continuity which might accrue from reductions in timber income. While FCW has developed

**Figure 22 – The FCW’s net income from timber per thousand hectares has fallen from the highest to the lowest in the last five years, relative to England and Scotland**



Source: 'Forestry Facts & Figures – A summary of Statistics about Woodland & Forestry in Great Britain' 2007, 2006, 2005, 2004, 2003 and 'Annual Report & Accounts' for each country for 2002-2003 to 2006-2007

additional markets (such as those relating to biofuels) and is seeking to develop others (for example through the appointment of a part-time broadleaved development manager), the small scale will not replace the income generated by large scale timber production. For example, the value of FCW's initial contract with a paper mill in Shotton to provide brash was £4,000 (Case Study F). The FCW does not undertake any medium to long-term scenario planning to take account of any decreases (or increases) in timber income. Consequently, this tends to be dealt with via ad hoc or short-term strategies. The FCW will need to develop clear scenario planning to assess the opportunities and risks that arise from falling or rising timber income, particularly if the revision of the *Woodlands*

for Wales strategy further alters the balance between the economic, social and environmental outcomes for forestry in Wales.

**Effective workforce planning is needed to accommodate falling staff numbers and deliver the broadening agenda of FCW**

**2.56** Between 2004 and 2007, FCW staff numbers fell by nine per cent, whereas staffing levels in England and Scotland increased over the same period (Figure 23). The FCW's Staffing Action Plan includes a target to reduce staffing levels further, to 356, in 2008-2009. The FCW reports that its planned reduction in staffing levels reflects the impact of the financial settlement agreed with the Assembly Government.



**Figure 23 – Between 2004-2005 and 2006-2007, FCW's staffing levels fell while those of the Forestry Commission in England and Scotland rose**

|          | 2004-2005 | 2005-2006 | 2006-2007 | Change |
|----------|-----------|-----------|-----------|--------|
| Wales    | 408       | 379       | 373       | -9%    |
| Scotland | 1,027     | 1,029     | 1,051     | 2%     |
| England  | 1,104     | 1,143     | 1,156     | 5%     |

Source: Annual Report and Accounts 2004-2005 to 2006-2007 for the three countries

**2.57** Having delivered a wider agenda as staff numbers have fallen, both FCW and FCGB have expressed concern about whether FCW will be able to accommodate a broadening agenda, for example arising from the refreshed *Woodlands for Wales* strategy, without additional capacity. Nevertheless, delivering the broadening forestry agenda in Wales represents a challenge to FCW's workforce planning in the context of budgetary and workforce capacity pressures. The FCW will need to ensure that it has the right mix of skills to deliver a diversifying role. The FCW's 2006-2012 Staffing Action Plan articulates how FCW intends to deliver its core objectives (as set out in the corporate plan), while at the same time operating within the boundaries of the financial settlement agreed with the Assembly Government. The Staffing Action Plan also sets out its succession plans to ensure the appropriate mix and distribution of skills within FCW.

**2.58** However, some staff expressed concern about current staffing levels and the risk of FCW trying to do too much (Figure 24). Staff argued that FCW should prioritise its objectives to address workforce capacity risks. Other stakeholders expressed similar concerns. This reflects the need for FCW to develop a better understanding of its organisational priorities so that it can better balance existing capacity and demand.

**Figure 24 – The FCW staff expressed concerns about workforce capacity**

When asked to identify improvement areas, participants made the following comments:

- 'Enough staff to deliver these objectives required.'
- 'More staff. We have been losing staff, no redundancies but people who leave are often not replaced. However, workloads are always increasing, for example as Health and Safety requirements improve.'
- 'An understanding that policies need the resource[s] to be carried out and that more staff are needed to achieve this.'
- 'We cannot continue to provide services if jobs keep being cut.'
- 'More administrative staff and resource are needed, more tasks are being taken on, but unfortunately we end up juggling extra objectives (which create more tasks) with the same or less staff.'

Source: Wales Audit Office focus groups with FCW staff

## Effective change management is required to deliver change and ensure that both internal and external stakeholders have a clear understanding of FCW's strategic direction

Internally, effective change management is needed to unite staff around a clear strategic direction

2.59 Figure 25 shows that our focus groups of staff found that they did not feel that FCW has a clear set of organisational priorities, and identified evidence of a cultural split within FCW arising from clear tensions about what staff themselves saw as the appropriate focus for the organisation. Broadly speaking, these tensions centred upon the extent to which FCW should engage in activities beyond the production of timber.

2.60 Recently FCW took the decision to set up a Policy and Programme team (paragraphs 2.6 and 2.8), which sits within the National Office in Aberystwyth, is intended to develop a stronger corporate direction and business processes, and when fully staffed will have 16.24 full time equivalents. Some staff do not fully understand the need for these recent changes in FCW's structure, perceiving such change as indicative of growing internal overheads and the development of a top heavy structure (with an overly large number of higher pay band staff), at the expense of front line forestry and administrative staff. As part of our analysis of staff focus groups, we identified a list of their priority improvement areas (Appendix 4, Figure 2); the need to redistribute staffing resources – specifically to ensure an appropriate balance between different grades of staff, and to prevent the development of a 'top heavy' management structure was the third highest priority. It was clear that to some extent, an

### Figure 25 – Cultural tensions within FCW about its core purpose

During focus groups, participants made the following comments:

- Clear focus as to what we're about – Forestry Commission = timber – mountain bike = Sports Council (eg) – visitor centre = private initiative = simple.
- Stop thinking that timber is the be all and end all. Most staff involved with timber production have a great attitude to our multi purpose organisation, there is just a few dyed in the wool old school foresters that continue to moan about all the other things we do as being a fad and this is extremely demotivating.
- The culture is one of ... a deep distrust of those of us that have come from the wider world of forestry, rather than embrace different experience[s] and qualification[s], wet blankets are thrown on us until it is hoped we suffocate.
- Too many people still see forest management as core and everything else as a nice to have, rather than recognise that as an organisation we have a very wide core.
- Timber production is forestry – don't forget that – without timber production we would be the National Trust.
- The organisation has been going through a change of culture recently – there is dissatisfaction in some areas about the result and frustration at the degree of changes to the Forestry Commission's traditional areas of business – too fast for some, not fast enough for others.
- The FCW [is] still fixated on timber as its only business – lack of appreciation across the organisation of the wider potential.
- It seems that FCW just wants to concentrate on woodland management as an end in itself.
- A return [is needed] to the practices of silviculture by trained and experienced specialists, it was from this previous practice that all the benefits of the forest we now enjoy stemmed.
- The unique features which the Forestry Commission has produced are forests. We should never forget the diversity of opportunities which this produces and [we] need to keep working on the basic concept.

Source: Wales Audit Office focus groups with FCW staff



'Us and Them' mentality is coalescing around this perceived problem, as it is around the issue of the extent to which FCW should move beyond its traditional role of supplying the timber industry.

- 2.61** Stakeholders described FCW as an engaged partner, open to the perspectives of others and as an able communicator; a point echoed by staff who identified partnership working as one of the areas in which FCW was performing well. However staff saw internal communication as a significant problem; the need to improve internal communication across different functional areas was ranked second in our 'top ten' improvement areas. More specifically, participants in our focus groups felt that the various cost units within FCW (such as Wales Harvesting and Marketing (WHaM) and the Forest Districts) tended to work independently without communicating effectively. The organisation was not seen to operate as a team and knowledge – about such basics as the roles played by different units – remained compartmentalised.
- 2.62** Consequently FCW needs to ensure that its approach to internal communication is as effective as its techniques for engaging and communicating with external stakeholders. Staff attending our focus groups made a number of suggestions about how to improve internal communication, all of which we have shared with the Director of FCW. Internal tensions over purpose, staff concerns over the distribution of staffing resources and a perceived failure of internal communication all point to a need for effective and visible leadership to clearly articulate the main purpose of the organisation, and provide a well grounded rationale for key decisions. Indeed staff have themselves called for greater direction and more visible leadership; the need for FCW to clearly identify its core objectives was the fourth priority improvement
- area ([Appendix 4, Figure 2](#)). Participants also made a number of comments calling upon senior staff to adopt a higher internal profile in order to show vision and provide direction for FCW staff.
- 2.63** There is also scope for FCW to develop a stronger culture of learning lessons internally as effectively as it does from external organisations. We found that internally, lessons have not been consistently learned and disseminated. For example, Cydcoed (FCW's EU funded programme to improve access to green spaces and woodland in deprived communities) cost £16 million but funding for ongoing monitoring was not built into project costings. This has led to an absence of baseline data, which has in turn created difficulties for final programme evaluation whose production has been slow.
- 2.64** Similarly, while the recent wind farm procurement represented a new area of work for FCW, the learning points from this exercise have not been systematically identified and disseminated, which reflects the overall lack of a co-ordinated approach to procurement. In failing to identify and share the lessons learned from the wind farm procurement to other areas of its business, FCW also runs the risk of losing this knowledge, either as individuals move on or as such expertise becomes compartmentalised within a given business unit.
- 2.65** This is not to say that FCW does not have mechanisms in place to identify and learn important lessons from external partners. The FCW has worked effectively with the Environment Agency Wales to identify how to improve its harvesting methods and reduce their adverse impacts on soil and water quality. Further work with the Environment Agency Wales has led FCW to revisit how it uses pesticides to control disease in saplings

following Environment Agency Wales research which found that these pesticides were toxic to fish. The FCW has also used the UKWAS certification process to drive learning and improvement.

### **Externally, FCW needs to manage the changing and potentially competing expectations of its stakeholders**

**2.66** Our analysis of data submitted by members of the public revealed the competing priorities of external stakeholders, with a number of respondents questioning whether FCW has achieved the right balance between supplying the timber industry and delivering wider social and environmental benefits from the forest estate. **Figure 26** provides a range of views and external expectations of FCW, which reflect competing expectations and views about the development of forestry policy in Wales. We also received additional detailed correspondence from members of the public who opposed the wind farm developments on FCW land. Seeking to accommodate such conflicting demands may become more complex if the revised *Woodlands for Wales* strategy requires FCW to make further changes to the relative balance between the social, economic and environmental outcomes of forestry.

**2.67** Consequently, FCW will need to ensure that it is well placed to scan the horizon to identify any likely future demands (and risks) accruing from both an expanded portfolio of responsibilities and a changing legislative framework, as well as seeking to identify effective approaches to communicating any changes in its priorities and services arising from Assembly Government policy.



**Figure 26 – External stakeholders have competing priorities of FCW**

**The priorities of the timber industry are largely economic**

- 'It is acknowledged that the role of the Forestry Commission has changed following devolution. We have seen the development of FCW and changes in response to new Government agendas, which place greater emphasis on the social and environmental aspects of forestry and land use. It is widely felt in forestry circles that current forestry policy in Wales has resulted in an unbalanced approach to forestry and that as a consequence, the commercial forestry and wood processing sector in Wales is being disadvantaged, which is threatening the efficiency and competitiveness of many businesses in rural areas. Traditionally, the Forestry Commission facilitated commercial timber production via grant aid for timber planting. Of late, the focus has shifted away from support for planting trees to produce wood products, to the planting of trees to provide other benefits. It is essential that there is balance in such an approach.'
- 'The FCW needs to recognise to a far greater degree the needs of the industry and prioritise its focus towards customer service. The Forestry Commission was set up to provide a timber resource for the nation and this seems to have been overtaken by the needs of other interest groups who contribute nothing towards the financing of FCW. A recognition of the needs of the wood-using industry to enable it to continue to create wealth and jobs has to take priority over social and environment issues. We need a return to the balance pre-devolution, where timber production was not disadvantaged.'
- 'Is current policy adequate to meet the future needs of the wood using industry in Wales as well as other stakeholders? It is suggested that greater balance is required, so that no one objective disadvantages other objectives. From an industry perspective, some believe that the importance of commercial forestry in Wales is being downgraded in favour of social and environmental deliverables. The truth is that our forests will continue to provide benefits for all, provided that they are appropriately managed – this is the challenge.'
- 'The main objectives of FCW are economic, social and environmental. It is right that the latter two have been more prominent in recent years but the commercial (timber production) aspect is threatened. It seems that the basics of sound silviculture are being undermined and that sustainable economic objective is being eroded.'

**Risks arising from potentially competing priorities**

- 'It may be questioned if FCW is being pulled in too many different directions; experience has shown that trying to be 'all things to all me' is seldom a recipe for success. The FCW should have a well defined role and objectives and focus on doing these well. The objectives must be practical, reasonable and achievable and the organisation must have adequate resources to deliver what is reasonably expected of it.'

**Priorities that focus on the wider social and environmental benefits of forestry**

- 'The FDPs and management of individual areas seem to concentrate mainly on timber production often at the expense of wildlife and habitats.'
- 'The FCW as elsewhere has long had the policy of creating new areas of work, new roles within its work force but existing staff are redeployed to fill these posts. In an organisation largely inhabited by well trained and expert foresters, there is a shortage of expertise in these other areas, though that is not to say that existing staff don't deliver a high standard of work. In particular working with communities has lacked specialist support (fewer than three or four people in Wales) with very few experts in this area of work employed. Nature conservation and landscape again have suffered and problems of integrating these areas of work into the work of FCW have arisen. The delivery of multiple objectives requires other areas of expertise and FCW needs to recruit to reflect these areas of work.'
- 'It should be recognised that much of FCW's work is not producing timber revenue. Whilst Harvesting and Marketing should seek to maximise returns from timber, this must be balanced against the other benefits to society. Recreation for example, providing a world class mountain biking facility at Coed y Brennin benefits relatively few mountain bikers but the local economy has also received a boost.'

Source: Public submissions made to the Wales Audit Office's website

# Appendix 1 – Methodology

- 1 In carrying out this study we used a range of methods:
- document review;
  - data analysis;
  - semi-structured interviews;
  - focus groups and regional drop-in visits with staff; and
  - public submissions to a dedicated website.

## Document review

- 2 We reviewed a wide range of internal FCW documents relating to the following key business areas: corporate and business planning; financial management; corporate performance management; governance; Human Resources; strategy and forest services. We supplemented this work with a review of relevant Assembly Government policy and strategy documents (such as the Environment Strategy, Technical Advice Note 8). In order to understand how FCW performed in comparison with FC England and FC Scotland, we also made use of a number of documents produced by FCGB (eg, *Forestry Statistics*, 2007).

## Data Analysis

- 3 Our data analysis work relied heavily upon a wide range of primarily financial and performance data provided by FCW. We used these data sets to look at such issues as: patterns of income and expenditure; staffing levels; grant expenditure; harvesting costs; restocking trends and performance against

KPIs. We also drew upon relevant data sets from FC England and FC Scotland, which meant that we could use this strand of work to develop an understanding of how FCW compared with the other two areas comprising FCGB.

## Semi-structured interviews

- 4 We interviewed:
- the FCW staff at both regional and headquarters level, these staff represented the main functional units within FCW; including the Forest Districts, Social Team, Wales Harvesting and Marketing Unit and Wales Silvicultural Operations;
  - the FCGB staff and relevant officers of the Assembly Government's department for Rural Affairs; and
  - key stakeholders representing a diverse range of social, economic and environmental interests, drawn from the statutory, charitable and commercial sectors.

## Focus groups and regional drop-in visits with staff

- 5 We carried out eight focus group sessions with FCW staff; two sessions were held in each of the four Forest Districts within Wales. In total 109 members of staff attended these sessions, which represents almost one third of FCW's complement of 373 staff. Participants were self selecting in that they had replied to a Wales Audit Office invitation to participate in the sessions. We used software which enables participants to register



their views electronically (via a laptop) and anonymously, while at the same time being able to view, and comment on, the comments made by other participants. During these sessions we asked staff to initially identify and prioritise perceived problems, before moving on to propose solutions to these problems. To support FCW's own internal management and organisational development, we provided the Director of FCW with a detailed report on our analysis of the focus group data.

- 6 To acknowledge that not all staff are equally comfortable using IT, we also ran a series of drop in sessions across Wales. These provided staff with an opportunity to voice their opinions in a one-to-one setting.

### **Public submissions**

- 7 We established a website describing our study of the operations of the FCW and which provided the public with the opportunity to comment on:
  - what FCW does well;
  - what FCW needs to improve; and
  - how FCW could improve its work and services.
- 8 We received 28 submissions to this website. Submissions came from individuals representing a range of interests, but the largest single group of submissions came from private or professional foresters.

## Appendix 2 – The work of FCW’s Estate Management group

Figure 1 – The main responsibilities of key units within the Estate Management group

| Forest Districts (FDs)   |
|--|
| <p>There are four FDs across Wales, with responsibility for:</p> <ul style="list-style-type: none"><li>■ Producing a Strategic Plan for the district and developing FDPs, which flow from the Strategic Plan (which is revised annually).</li><li>■ Community consultation around the development of FDPs.</li><li>■ Ensuring that FCW meets its legal responsibilities as a land manager.</li><li>■ A wide range of estate management issues (eg, ensuring that fences on Assembly Government owned woodland are adequately maintained, dealing with fallen trees).</li><li>■ Developing and managing public access to the Assembly Government owned woodlands.</li></ul>   |
| Wales Harvesting and Marketing (WHaM)  |
| <p>WHaM was set up in 2000 and is based at FCW’s head offices in Aberystwyth, however there are also WHaM staff based in each of the four FDs. WHaM has responsibilities for:</p> <ul style="list-style-type: none"><li>■ Developing contracts with the timber industry for both the harvesting of land, and for selling timber products.</li><li>■ Managing FCW’s own harvesting operations.</li><li>■ Developing the ‘U18’ or five-year production plan, which identifies which areas of the forest are to be harvested, using what method and when. The ‘U18’ production plan is based on FDPs developed by the Forest Districts.</li><li>■ Working with colleagues across FCGB (eg, part of the GB level Operational Services group).</li><li>■ Providing timber income forecasts, and tracking trends in timber prices.</li></ul>   |
| Wales Silvicultural Operations (WSO)   |
| <p>Since January 2008, WSO has been fully aligned with the four FDs, this means that WSO staff are co-located with forest district staff across Wales. Wales Silvicultural Operations staff have responsibilities for:</p> <ul style="list-style-type: none"><li>■ Restocking (ie, replanting) of Assembly Government owned woodlands, including working with the FCGB Plant and Seed Supply branch to secure appropriate stock. The level of annual restocking is determined by amount of land harvested by WHaM. Wales Silvicultural Operations need to ensure that the land bank (or the area of Assembly Government woodland awaiting replanting) should not exceed the average annual area felled by more than a factor of 3.5. In 2008-2009 WSO will be responsible for restocking 1,330 ha of Assembly Government owned woodland.</li><li>■ Providing advice to district planning officers, as part of the FDP process (eg, regarding types of species to be planted).</li><li>■ Working with colleagues across FCGB (eg, as part of the Forest Management Officers Group, which has recently been looking at the biological control of pests such as weevils).</li></ul> |



## Social Forestry team

The Social Forestry team has policy responsibility for aspects of forestry related to tourism, health, education and public access. Other areas of work include:

- Providing advice, guidance and support to the Forest Districts on the links between these areas and forestry development, and how best to deliver these links through discrete projects. Delivery of social forestry projects is done through the Forest Districts, rather than directly by the Social Forestry team.
- Monitoring the performance of FCW in delivering on social forestry objectives (eg, carries out visitor satisfaction surveys across FCW visitors' centres).
- Liaising with other Assembly Government departments (eg, the team recently secured £70,000 from the Assembly Government to enhance access to inland waterways located on the estate).

Source: *Wales Audit Office*

## Appendix 3 – The FCW’s recent performance against Key Performance Indicators

Figure 1 – Performance against KPIS (2006 to 2008)

| Reporting Year | Description of KPI   | Results                 |
|----------------|--|-------------------------|
| 2006-2007      | KPI 1 UKWAS Certification of Woodlands   | Achieved                |
| 2007-2008      | KPI 1 UKWAS Certification of Assembly Woodlands  | Achieved                |
| 2006-2007      | KPI 2 Landbank at year end on the Assembly Woodland estate   | Achieved                |
| 2007-2008      | KPI 2 Number of cases of significant non-compliance with approved design plans on the Assembly woodland estate                                   | Achieved                |
| 2006-2007      | KPI 3 Number of cases of significant non-compliance with approved design plans on the Assembly woodland estate                                   | Achieved                |
| 2007-2008      | KPI 3 Percentage of estate woodland maintained as identified for conversion to LISS in Design Plans  | Achieved                |
| 2006-2007      | KPI 4 Area of woodland under approved grant schemes  | Achieved                |
| 2007-2008      | KPI 4 Percentage of area of estate woodland identified for conversion to Lower Impact Silvicultural Systems (LISS) that has been thinned in year | Achieved                |
| 2006-2007      | KPI 5 Area of Assembly Government estate woodland that has been thinned during the year  | Partially achieved      |
| 2007-2008      | KPI 5 Area of woodland entered to BWW (approved schemes)   | Not achieved            |
| 2006-2007      | KPI 6 Percentage of Assembly Government estate woodland identified for management by LISS  | Achieved                |
| 2007-2008      | KPI 6 Percentage of Scheduled Ancient Monuments on estate with approved plans (new designations must have plans within nine months)              | Achieved                |
| 2006-2007      | KPI 7 Area of Assembly Government estate woodland with approved FDPs 100%  | Partially achieved      |
| 2007-2008      | KPI 7 Quality of Forest Visit Experience score   | Achieved                |
| 2006-2007      | KPI 8 Percentage of Scheduled Ancient Monuments on the Assembly estate that have approved management plans                                       | Achieved                |
| 2007-2008      | KPI 8 Number of Community Management Agreements in place on Estate [baseline figure for 2006-2007 was 17 agreements]                             | Achieved                |
| 2006-2007      | KPI 9 Number of community management agreements on the Assembly Government’s woodland estate   | Reporting purposes only |



| Reporting Year | Description of KPI  | Results                 |
|----------------|---|-------------------------|
| 2007-2008      | KPI 9 Number of community development projects completed through Cydcoed  | Not achieved            |
| 2006-2007      | KPI 10 Number of detailed project plans developed with local authorities for affordable rural housing   | Partially achieved      |
| 2007-2008      | KPI 10 Total volume harvested from Estate by silvicultural method   | Not achieved            |
| 2006-2007      | KPI 11 Total timber volume harvested from the Assembly Government's Woodland Estate   | Achieved                |
| 2007-2008      | KPI 11 Percentage of SSSIs on estate with approved plans (new designations must have plans within nine months)  | Not achieved            |
| 2006-2007      | KPI 12 Production forecast volumes from the Assembly Government's estate for the next 10 years versus published target sales volumes  | Not achieved            |
| 2007-2008      | KPI 12 Area of PAWS on Assembly Government Estate identified for restoration that has received an intervention in year  | Achieved                |
| 2006-2007      | KPI 13 Percentage of SSSI on the Assembly estate with approved management plans   | Not achieved            |
| 2007-2008      | KPI 13 National Forest Estate Wind Farm Programme progress  | Achieved                |
| 2006-2007      | KPI 14 Percentage of Plantation on Ancient Woodland sites (PAWS) on the Assembly Government's estate that have been identified for restoration  | Reporting purposes only |
| 2007-2008      | KPI 14 Number of Wood Energy projects completed through WEBS  | Achieved                |
| 2006-2007      | KPI 15 Number of wind farm option agreements signed with developers   | Not achieved            |
| 2007-2008      | KPI 15 Percentage of cases of alleged illegal felling that are investigated by Grants and Licensing (G&L) and percentage of satisfactory outcomes   | Achieved                |
| 2006-2007      | KPI 16 Percentage of cases of alleged illegal felling that are investigated by G&L.   | Achieved                |
| 2007-2008      | KPI 16 per cent 'Dropped' calls [Dropped calls are those where the caller rings off after 30 seconds of ringing]  | Achieved                |
| 2006-2007      | KPI 17 Number of Environmental Impact Assessment (EIA) determinations that required an Environmental Statement to be prepared, and the percentage where EIA stop notices and reinstatement orders were issued | Reporting purposes only |
| 2007-2008      | KPI 17 Percentage of FOI-EIR requests that are dealt with within the statutory deadline of 20 working days  | Achieved                |
| 2006-2007      | KPI 18 Timber Customer Charter  | Achieved                |
| 2007-2008      | KPI 18 Percentage of new starter turnover or 'Rookie Rate' [those staff who leave within two years, either from a permanent contract or from an FTA that is longer than two years]                            | Achieved                |
| 2006-2007      | KPI 19 Woodland Grant Scheme Applicants Charter   | Achieved                |

| Reporting Year | Description of KPI   | Results                 |
|----------------|--|-------------------------|
| 2007-2008      | KPI 19 Staff absence days per staff year   | Achieved                |
| 2006-2007      | KPI 20 Charter Standard Statement for Felling Licensing  | Not achieved            |
| 2007-2008      | KPI 20 PMS standards met [Agreed Foward Job Plans, review meetings on schedule and Individual Learning Plans in place      | Achieved                |
| 2006-2007      | KPI 21 Percentage of customer queries to Customer Contact Centre that are resolved on first contact                        | Not achieved            |
| 2007-2008      | KPI 21 Outturn compared to budget  | Achieved                |
| 2006-2007      | KPI 22 Percentage of FOI/EIR requests that are closed out within the statutory deadline                                    | Partially achieved      |
| 2007-2008      | KPI 22 Outturn compared to budget  |                         |
| 2006-2007      | KPI 23 Customer satisfaction at key recreation sites on the Assembly Government's woodland estate                          | Reporting purposes only |
| 2007-2008      | KPI 23 Utilisation of Private Woodland grants budget   | Not achieved            |
| 2006-2007      | KPI 24 Investors in People Accreditation   | Achieved                |
| 2007-2008      | KPI 24 Adherence to agreed spending profile for European funded projects   | Achieved                |
| 2006-2007      | KPI 25 Staff absence days per staff year   | Achieved                |
| 2006-2007      | KPI 26 Staff accident rate   | Not achieved            |
| 2006-2007      | KPI 27 Outturn compared to budget  | Achieved                |
| 2006-2007      | KPI 28 Assembly Government funding   | Achieved                |
| 2006-2007      | KPI 29 Grant spend as a proportion of our grants budget  | Achieved                |
| 2006-2007      | KPI 30 Number of incidents relating to public liabilities resulting in personal injury on the Assembly Government's Estate | Achieved                |

Source: The FCW Annual Report and Accounts 2006-2007 and 2007-2008



## Appendix 4 – Key findings from our focus groups of FCW staff

**Figure 1 - Areas in which FCW is working well**

| Supporting thriving woodland-based industries                             |                 |
|---|-----------------|
| Things FCW does well  | Number of ideas |
| Promoting private sector investment in the timber industry, through:      |                 |
| ■ Guaranteeing timber supplies  | 7               |
| ■ Long term contracts   | 4               |
| Managing public sector timber industry according to high set of standards | 7               |
| Producing timber in a sustainable way                                     | 7               |
| Engagement with private sector timber industry                            | 4               |
| Total number of ideas   | <b>29</b>       |
| <b>Reported examples of good practice</b>                                 |                 |
| GATE – Gaining Added value for Timber in Europe                           |                 |
| Contributing to a better quality environment throughout Wales             |                 |
| Things FCW does well  | Number of ideas |
| Conservation of key species and habitats                                  | 10              |
| Enhancing the Welsh landscape   | 6               |
| Maintaining and/or improving the environmental value of private woodlands | 6               |
| Working to combat climate change  | 5               |
| Restoring and diversifying woodlands                                      | 4               |
| Total number of ideas   | <b>31</b>       |
| <b>Reported examples of good practice</b>                                 |                 |
| Planting Ancient Woodland Sites (PAWS)                                    |                 |
| Reclaiming Our Forgotten Inheritance                                      |                 |
| Caerphilly Woods  |                 |
| Riverine works in the Tywi Valley   |                 |
| BWW grants  |                 |

| Providing real social and community benefits, both locally and nationally   |                 |
|---|-----------------|
| Things FCW does well  | Number of ideas |
| Providing public access to recreational opportunities within FCW forests (walking, mountain biking, horseriding and visitor centres)  | 38              |
| Strengthening local economies and supporting small businesses   | 20              |
| Community engagement and development  | 13              |
| Educating the public about forests and forestry   | 11              |
| Extending access to private woodlands   | 4               |
| Providing opportunities for social inclusion  | 3               |
| <b>Total number of ideas</b>  | <b>90</b>       |
| <b>Reported examples of good practice</b><br>Cydcoed<br>Forest Schools<br>Mountain Bike Trails Afan Forest Park and Cwmcam<br>Ceredigion LINC's project<br>Visitor centres eg, Coed y Brenin and Nant yr Arian<br>District Gateways Project |                 |

Source: Wales Audit Office focus groups with FCW staff

**Figure 2 – Priority improvement areas identified by staff**

| Priority for Improvement  | Explanation   | Number of ideas recorded |
|---|---|--------------------------|
| 1 To improve public perceptions of the work of FCW                    | Participants felt that, across all aspects of its remit, FCW was successful in delivering a range of positive outcomes. However, they also felt that such achievements were not sold sufficiently, consequently the public had a limited understanding of what FCW did and the wide range of areas in which it could make/was making a positive contribution. Participants wanted to see more publicity, better branding and better promotion of the brand developed. | 39                       |
| 2 To improve internal communication across different functional areas | Participants felt that the various cost units within FCW (such as WHaM and the FDs) tended to work independently and did not communicate effectively. Consequently the organisation was not seen to operate as a team and knowledge – about such basics as the roles played by different units – remained compartmentalised.  | 33                       |



| Priority for Improvement   | Explanation  | Number of ideas recorded |
|--|--|--------------------------|
| <p>3 To redistribute staffing resources – specifically to ensure an appropriate balance between different grades of staff, and to prevent the development of a ‘top heavy’ management structure</p>                        | <p>Participants felt that staffing resources were disproportionately focussed on Pay Bands four and above, with the consequence that there were insufficient numbers of both administrative staff and trained foresters.</p> <p>It appears clear from our analysis of comments relating to this issue, that such perceptions are a source of tension within FCW, and that to some extent, an ‘Us and Them’ mentality is coalescing around this perceived problem.</p>  | 32                       |
| <p>4 To clarify FCW's objectives</p>   | <p>Participants clearly wanted to see greater clarity and guidance in terms of FCW’s core objectives; they wanted to see objectives expressed in terms of outcomes, so that they had a better developed understanding of what they were trying to achieve.</p> <p>Greater clarity was also seen as a necessary precursor to defining and allocating staff resources and to improving relationships with external organisations. More specifically, it was argued that only when FCW had a clear internal understanding of its future direction could it engage effectively with partners to deliver this vision.</p> | 28                       |
| <p>5 To enhance external communications – specifically to ensure that partners (particularly the Assembly Government) are better informed about the direction in which FCW is moving and the contribution FCW can make</p> | <p>Participants felt that external organisations did not clearly understand FCW’s remit, or the wide range of policy areas to which FCW contributed: education; health; tourism and community development.</p>   | 19                       |
| <p>6 For senior managers to improve the way in which they communicate, specifically, senior managers were seen as needing to demonstrate that they really listened to staff</p>  | <p>Participants felt that while there had been a number of opportunities for staff to contribute their concerns and ideas such opportunities had produced little in the way of change. This apparent disjunction – between the concerns raised by staff and any action related to these concerns – led staff to feel that senior managers were not really listening. Moreover, some participants also felt that senior managers were not open to engaging in dialogue with staff.</p>  | 15                       |
| <p>7 To develop FCW as a more thoroughly integrated organisation</p>   | <p>Participants felt that the move towards specialised business units/cost centres had led individual units to become isolated from each other, to adopt a ‘silo mentality’ and to, on occasion, pull in opposite directions. Consequently, there was a perceived need to better integrate the specialised units, so that they worked together to deliver the organisation’s goals.</p> <p>It may well be the case that the importance attributed to better internal communication is linked to the perceived need to develop FCW as a more thoroughly integrated organisation.</p>                                  | 14                       |

| Priority for Improvement   | Explanation  | Number of ideas recorded |
|--|--|--------------------------|
| 8 To prioritise amongst objectives   | <p>Participants felt that, given current resources, FCW was in danger of trying to achieve too much. It was also argued that giving equal weight to a diverse set of objectives meant that – on occasion – staff found it difficult to identify what they should be doing, and were pulled in competing directions.</p> <p>In order to address these risks, participants argued FCW should prioritise amongst its objectives. Moreover, where an objective was not identified as a priority FCW should have the confidence to ‘stand up’ and make it clear that this was not considered part of its core business.</p>   | 13                       |
| 9 To redistribute staffing resources – specifically to ensure an appropriate balance between policy officers and foresters | <p>Participants did not feel there to be a well developed understanding of the front-line resources needed to deliver FCW’s policies and programmes. This, together with a perceived failure to replace forestry staff when they left, was thought to have created an imbalance between the numbers of policy officers and the numbers of forestry trained staff. Consequently, it was argued there were insufficient staff out on the ground managing the woodlands, and insufficient staff in the field developing relationships with external organisations.</p> <p>As with improvement area 3, it was clear from our analysis of relevant comments that such perceptions are a source of tension within FCW, and that again, to some extent, an ‘Us and Them’ mentality is coalescing around this perceived problem.</p> | 12                       |
| 10 To develop a shared vision of the role FCW should play  | <p>Our analysis of the focus group data found that participants did not share a vision of the role FCW should play. This conflict was centred upon the extent to which FCW should extend its remit beyond timber production to include aspects of social forestry, such as, the development of mountain bike trails.</p>   | 11                       |
| 11 To move away from setting short-term objectives, which are overly influenced by political pressures                     | <p>Participants felt that, in the past, FCW policies had been subject to rapid, and unexplained, changes in both emphasis and overall direction. This was seen as contrary to developing the long-term vision needed to support slow growing woodlands, and was believed to result from allowing FCW policies to be overly influenced by political expediency.</p>   | 11                       |
| 12 To enhance staffing levels  | <p>Improvement areas 9 and 3 reflect the perceived need to redistribute staffing resources. However, participants also identified the need to enhance staffing levels across the organisation as a whole.</p>  | 11                       |
| 13 To reconsider the role of contractors and the level of contract management expertise within FCW                         | <p>Participants felt that FCW had become overly reliant upon contractors. It was argued that not only did contractors tend to deliver poor quality work, but that, moreover, managing contractors was overly time consuming and prevented staff from carrying out other responsibilities.</p> <p>On a somewhat different level, participants raised concerns about whether FCW had the necessary expertise to effectively manage contracts.</p>  | 9                        |

Source: Wales Audit Office focus groups with FCW staff