



Cynulliad National
Cenedlaethol Assembly for
Cymru Wales

Audit Committee



Operations of the Forestry
Commission Wales

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THE NATIONAL ASSEMBLY FOR WALES

AUDIT COMMITTEE

Report presented to the National Assembly for Wales on 25 March 2009 in
accordance with section 143(1) of the Government of Wales Act 2006

Operations of the Forestry Commission Wales

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Summary

1. Forestry Commission Wales (FCW) is both part of Forestry Commission Great Britain (FCGB) and operates as the Assembly Government's department of forestry; as such FCW is sometimes referred to as a 'virtual division' of the Assembly Government. FCW's primary responsibility is to deliver, alongside its partners, the Assembly Government's forestry objectives as set out in *Woodlands for Wales* (2001).¹
2. The FCW delivers these objectives both through its direct management of the Assembly Government owned estate (of 126,000 hectares or some six per cent of Welsh land), and indirectly through its grant and licensing functions.
3. *Woodlands for Wales* broadened the traditional forestry agenda to encompass a range of social and environmental objectives. Recently the Assembly Government decided to revise the original 2001 strategy, to reflect a number of emerging priorities, particularly climate change.² Both FCGB and FCW have expressed concern about the capacity of FCW to take on significant additional responsibilities at a time when it is reducing staff numbers.³
4. Funding for FCW comes from two main sources: the Assembly Government and receipts from the sale of timber. Under what is known as a net deficit funding arrangement, the level of funding provided by the Assembly Government takes into account the estimated level of income FCW should receive from timber sales. Timber prices are subject to significant fluctuations and are likely to be affected by falling demand arising from current global economic problems. While the Assembly Government may provide FCW with additional funding to cover falling levels of timber income, the timing and level of such additional funding is uncertain.
5. On the basis of a report prepared by the Auditor General for Wales,⁴ we took evidence from Trefor Owen, Director of FCW, and Huw Brodie, Director of Rural Affairs and Heritage, Welsh Assembly Government, and Huw Davies,

¹ *Woodlands for Wales* is the Assembly Government's 50-year vision for trees and woodlands in Wales.

² The Assembly Government received over 200 responses during the consultation period which closed on 14 October 2008. The revised strategy is scheduled for publication in late January 2009.

³ AGW report, paragraph 2.57

⁴ Auditor General for Wales (AGW) report, *Operations of the Forestry Commission Wales*, November 2008

Head of the Rural Affairs Business Unit in the Welsh Assembly Government. We examined whether FCW is well placed to deliver the Assembly Government's forestry objectives now and in the future. In the context of the revised *Woodlands for Wales* strategy, we concluded that FCW now needs to address a number of internal and external weaknesses to improve its ability to maximise the long-term benefits of forestry for the people of Wales.

FCW's internal management needs to be sharper to deliver better value for money

6. The role of forestry has significantly broadened in recent years, moving from a commercial harvesting operation to serving a range of social, economic and environmental objectives, and contributing to the Assembly Government's duty to promote sustainable development and to develop a response to the challenge of climate change. We acknowledge that FCW has successfully broadened its activities to reflect this diversified forestry agenda at a time when its staff numbers have fallen. For example, it has delivered a range of successful projects and delivered the National Windfarm Programme. However, despite responding well to this broadening agenda, a number of important areas remain in which FCW urgently needs to improve its internal management arrangements.

FCW needs to articulate a clear strategy and communicate it effectively to its staff

7. There are organisational tensions within FCW which centre on two main issues. Firstly some staff feel that FCW has developed a top heavy structure with a preponderance of higher grade office based staff, at the expense of front line administrative and forestry staff.⁵ More importantly, however, FCW staff do not have a shared vision about the future direction of the organisation, with staff expressing divergent views about the extent to which FCW should deliver non traditional forestry objectives, such as those related to social forestry (for example, using the forestry estate as a focus for community development initiatives).
8. This cultural split is in part due to the absence of a clearly articulated corporate direction, which also creates some difficulties around the performance management of individual staff. The Auditor General reported that, in the absence of a clear set of corporate priorities, some line managers

⁵ AGW report, paragraph 2.60

experienced difficulties explaining to staff why they should be carrying out certain activities and not carrying out other kinds of activities. Performance management has also been hampered by the failure to consistently align individual staff objectives with corporate priorities. More effective change management, line management and internal communication will be important elements of ensuring that all staff understand their personal role in delivery the revised *Woodlands for Wales* objectives. It will also be essential to ensure that the revised strategy clarifies the core purpose of FCW.

FCW's approach to resource management has not been sufficiently long-term and core business processes are weak, which is to the detriment of value for money

9. Although FCW has consistently delivered its financial targets, weaknesses in core business processes mean that FCW has been unable to develop a longer-term, more strategic approach to managing its resources. This compromises the value for money achieved from the significant amount of Welsh land managed by FCW, particularly because:
- business planning is financially driven and is based on rolling forward historical patterns of services, rather than explicitly reflecting FCW's strategic objectives;
 - FCW does not carry out medium to long-term financial planning, as its financial plans do not extend beyond a three year period;
 - FCW has not developed a costed capital programme and has consequently been unable to access Assembly Government capital funding to support its strategic objectives;
 - FCW is developing a procurement strategy and improved capacity to address weaknesses arising from reactive procurement activity which is weighted towards the year end because of uncertainty about levels of income;
 - estates management has not been strategic: FCW recognises the need to undertake a review of whether all of its £6m estate is needed and whether its estate is in the right location; and
 - there is a need for FCW to clarify its approach to maximising the income it generates from the significant amount of land it manages, which should focus on opportunities beyond timber sales.

10. FCW's reliance upon timber income and uncertainty about whether and to what extent the Assembly Government will provide additional income to cover falling levels of timber income explains in some part these weaknesses. However, the funding mechanism is not a sufficient explanation for such weaknesses and could indeed be seen as a strong imperative to take a more strategic approach to resource management.
11. At a time when staffing levels in FCW Scotland and England have risen, FCW has seen staffing levels fall and it expects further reductions in staff numbers over the next three years.
12. FCW has developed a Staffing Action Plan to ascertain staffing requirements over the medium-term. While the Director of FCW acknowledged that FCW had sufficient staff to deliver current requirements, he and the Assembly Government Director recognised that FCW will not have the capacity to deliver any additional requirements, should it be expected to do so under the revised *Woodlands for Wales* strategy.
13. Recently FCW has relied upon EU Objective One funding to resource core aspects of its business. FCW has resourced its community development work through the European Union (EU) funded Cydcoed programme, and has developed the wood as fuel sector through the EU funded Wood Energy Business Scheme (WEBS). Funding for both these programmes ended in 2008. While we welcome the fact that FCW has been able to retain the majority of staff working on these programmes, we consider it a risk that these core aspects of business have been so heavily reliant upon short-term external sources of funding.

The current economic climate may exacerbate management weaknesses further limiting the effective management of trade-offs between potentially competing objectives

The Assembly Government and FCW have not developed a management framework for forestry that captures the cross-cutting strategic direction and allows the effective management of trade-offs between potentially competing objectives

14. Both FCW and the Assembly Government recognised that the original *Woodlands for Wales* strategy did not fully capture the trade-offs that would need to be managed to deliver its objectives. This was compounded by FCW's inability to assess its performance in delivering the Assembly Government's strategic agenda for forestry because corporate and Key

Performance Indicators (KPIs) did not align with *Woodlands for Wales*. We therefore welcome the commitment of both FCW and the Assembly Government to develop clearer links between FCW's KPIs and strategic forestry objectives, as articulated within the revised *Woodlands for Wales* strategy.

15. Since 2001 a multi-purpose agenda has developed for forestry in Wales, with forestry expected to deliver a range of social, economic and environmental objectives. The potentially conflicting nature of these objectives means that, working closely with the Assembly Government, FCW needs to manage more effectively what it sees as the most appropriate trade-offs between these objectives.
16. The range of economic, environmental and social forestry objectives means that FCW serves a diverse range of stakeholder interests. The various stakeholder groups often have divergent views about the appropriate direction for forestry in Wales, for example the contrast between the traditional business of planting and harvesting spruce, and utilising the forest estate to combat climate change acting as a carbon sink.
17. The revision of the *Woodlands for Wales* strategy creates the potential that the forestry agenda will evolve still further away from traditional forestry activities. We welcomed the assurance of witnesses that there will be a concerted focus on effective communication with external stakeholders about changes in policy direction for forestry in Wales, particularly at a time of economic stress.
18. The current agenda for forestry in Wales with its emphasis on using woodlands to improve health, strengthen communities and provide learning opportunities cuts across the responsibilities of a number of Assembly Government portfolios and departments. Such a cross cutting agenda can only be successfully delivered if the Assembly Government itself is sufficiently joined up to make the links between, for example, forestry and education and forestry and health. Witnesses recognised the need to improve the coherence of the Assembly Government's approach to delivering its multi-purpose vision of forestry.

The current global economic problems could exacerbate the lack of flexibility in the funding framework which militates against a longer term approach to managing the forestry business

19. The current approach to funding FCW has contributed to FCW's short-term approach to managing its resources. Under the net deficit funding arrangement, Assembly Government funding to FCW takes into account FCW's estimated income from timber sales. If timber income falls below estimated levels the Assembly Government may provide FCW with additional funding, but the amount and timing of such additional funding is uncertain.
20. Consequently, FCW holds back expenditure in-year until it is confident that its income stream will cover its net costs. This has led to a short-term and reactive approach to both capital and revenue expenditure. The Assembly Government does not allow FCW to hold the receipts from any disposal of land beyond the year of the disposal. This approach is unlike that adopted in Scotland, and makes it more difficult for FCW to reposition its estate by using income from disposals to fund acquisitions.
21. The impact of the current global economic crisis on the construction industry, demand for timber and prices brings these uncertainties about income into sharper relief. In order to respond effectively FCW needs to:
 - improve its risk management arrangements by the introduction of more robust risk management in key business areas such as timber income;
 - optimise opportunities to diversity its business (for example, by further developing new markets for selling wood for fuel); and
 - maintain effective means of communicating with its commercial timber customers, particularly as regards timber production forecasts and demand for timber.

Recommendations

- (i) The revision of the *Woodlands for Wales* strategy will be a wasted opportunity unless the Assembly Government and FCW use it to develop a clear link between the broad objectives that forestry is expected to deliver for the people of Wales and the measures used to assess performance and manage trade-offs between potentially competing objectives and expectations. It also offers the opportunity to consider the workforce implications of any changes in strategy given the reductions in FCW's

staffing levels. **We recommend that the Assembly Government and FCW determine the high-level results they expect forestry to deliver for the people of Wales and develop from this a suite of key performance indicators from which to assess much more clearly the effectiveness with which that agenda is delivered. The Assembly Government and FCW should supplement this process with robust workforce planning to provide assurance that FCW has the staff capacity and capability to deliver the revised strategic agenda.**

- (ii) FCW staff do not share a clear vision of the future direction of forestry in Wales. **We recommend that FCW develops clear plans to communicate the new strategic direction for forestry in Wales to its staff. It should use the opportunity of the revised *Woodlands for Wales* strategy to clarify its core purpose and ensure that there are effective line management arrangements, expressed through personal objectives, feedback and appraisal, that allow each member of staff to clearly understand their personal contribution to the strategic agenda.**
- (iii) Despite the long-term nature of the forestry business, FCW's approach to financial management is short-term and its core business processes do not consistently support the delivery of its strategic priorities. The weaknesses are partly due to the net deficit funding arrangement, but this is also a good reason for FCW having more effective internal processes to manage the long-term nature and finances of its own business. **We recommend that FCW adopts a longer term and proactive approach to managing its resources by:**
 - a. **developing medium-term corporate Business and Financial Plans linked to the corporate strategy, with a particular focus on wider income generation opportunities beyond timber sales;**
 - b. **strengthening controls in procurement;**
 - c. **compiling a medium-term capital programme linked to a corporate Asset Management Plan/Strategy; and**
 - d. **setting up a mechanism to review the effectiveness of its revised business processes on an ongoing basis.**
- (iv) FCW has run a number of projects with European Union funding, but has not consistently developed exit strategies from the outset or business plans that fully cover the costs of project delivery. **We recommend that FCW develops costed plans and exit strategies at the outset of all such projects. It should also**

develop exit strategies to maintain existing projects where evaluation confirms their effectiveness.

- (v) The Assembly Government's Net Deficit Funding Arrangement for FCW, limitations on its ability to develop reserves and its inability to utilise any receipts from capital sales beyond the year of disposal has contributed to the short-term approach to managing its resources. The lack of flexibility is unsuited to the long-term nature of FCW's business and the fluctuations in demand and prices for its timber, particularly during the current economic crisis. **We recommend that:**

a. To address the funding mechanism:

- i. the Assembly Government should review the funding mechanism for FCW, in particular FCW's ability to hold reserves, whilst also ensuring that providing additional flexibility for FCW does not disproportionately affect other departments; and**
- ii. FCW and the Assembly Government should agree a long-term strategy to reposition the forest estate; the Assembly Government should consider allowing FCW to hold capital reserves to utilise receipts from sales of surplus woodlands over a longer timescale.**

b. To address the global economic challenges FCW should:

- i. pursue opportunities to diversify its income streams to accommodate falling income from timber sales;**
- ii. maintain effective means of communicating with its commercial timber customers, particularly as regards timber production forecasts and demand for timber; and**
- iii. develop sophisticated risk management arrangements to identify both opportunities and threats arising from the current economic climate, including scenario planning and sensitivity analysis.**

There have been successes for FCW in broadening the role and impact of forestry

22. Staff and external stakeholders have commended the quality of FCW staff⁶ and we are pleased that despite falling staff numbers⁷ FCW has delivered a widening forestry agenda.⁸
23. FCW has provided high quality opportunities for access and recreation, as demonstrated by the Coed y Brenin visitors centre and associated mountain bike trails.⁹ FCW is also eager to encourage families and their children to visit those woodland sites it has established as part of Plant! (the Assembly Government's *One Wales* commitment to plant a tree for every child born in Wales).¹⁰ We note Mr Owen's belief that the partnership delivering Plant! (comprising FCW, the Office for National Statistic and the Woodland Trust) is working extremely well.¹¹
24. FCW has shown that forests can play a role in community development.¹² In this respect, Mr Owen particularly noted FCW's partnership work with the Wales Council for Voluntary Action and the Heads of the Valleys Initiative.¹³
25. We agree with Mr Owen that the Cydcoed programme (aimed at using woodlands to build capacity within the most deprived communities in Wales) has been a success¹⁴ and we wish to emphasise the benefit of this programme.¹⁵ Consequently, we welcome the fact that, despite the end of EU funding, FCW has retained the majority of Cydcoed staff, and through these staff (and the newly expanded policy team) its capacity and capability to deliver community development initiatives and social forestry more generally.¹⁶

⁶ AGW report, paragraph 1.13

⁷ AGW report, paragraph 2.56

⁸ AGW report, paragraphs 1.14 to 1.32

⁹ AGW report, paragraph 1.14 and Case Study A

¹⁰ Annex A, paragraph 58

¹¹ Annex A, paragraph 58

¹² AGW report, paragraphs 1.17 to 1.18 and Case Study B

¹³ Annex A, paragraph 42

¹⁴ Annex A, paragraph 40

¹⁵ Annex A, paragraph 39

¹⁶ Annex A, paragraph 41

26. We are further encouraged by Mr Owen's ambitions to develop innovative ways of getting higher levels of community engagement, by making woodlands the sites for future social enterprises.¹⁷
27. FCW has created educational opportunities within the forest, primarily through its delivery of the Forest Education Initiative and the 'Forest School' training programme.¹⁸ It has also enhanced the biodiversity of the forest estate both through increasing the percentage of broad-leaved trees planted¹⁹ and through its involvement in the Black Grouse Recovery project.²⁰
28. FCW is working to develop new timber markets, in part through its financial support to the Wales Forest Business Partnership (WFBP). The WFBP is a business led partnership, which aims to both develop marketing strategies for Welsh wood products and to stimulate research and development in the timber industry.²¹
29. FCW has put in place a number of initiatives to encourage the greater use of wood as a fuel, (including the EU funded WEBS²² and its successor scheme).²³ We welcome Mr Owen's statement that FCW's sales to the wood energy market are increasing, although the current position is that annually FCW only sells 60,000 cubic metres of timber as fuel – out of total timber sales of 770,000 cubic metres.²⁴ We note FCW's continued focus on supporting this market, which as acknowledged by Mr Owen, is in its infancy and has the room to grow further.²⁵
30. FCW has also facilitated the production of renewable energy, primarily through its management, under a Section 41 agreement with the Assembly Government, of the National Windfarm Programme. Once operational the six sites will deliver 94 per cent of the Assembly Government's target of generating 800 Megawatts of renewable energy from onshore windfarms.²⁶ We welcome Mr Owen's focus on achieving this target. We also note his assertion that in delivering such operational capacity from only 57 per cent of

¹⁷ Annex A, paragraph 42

¹⁸ AGW report, paragraph 1.20 and Case Study C

¹⁹ AGW report, paragraph 1.22 and Figure 4

²⁰ AGW report, paragraph 1.21 and Case Study D

²¹ AGW report, paragraph 1.32

²² AGW report, paragraph 1.28

²³ Annex A, paragraph 101

²⁴ Annex A, paragraph 76

²⁵ Annex A, paragraph 76

²⁶ Annex A, paragraph 27

the land covered by the Strategic Search Areas,²⁷ FCW is punching above its weight in terms of delivering renewable energy for Wales from onshore sources.²⁸

31. In regard to the National Windfarm Programme, we also commend FCW's robust procurement processes, as demonstrated by the fact that FCW successfully defended the windfarm tender process against a claim that it should be subject to judicial review on the basis that FCW's procedures had been flawed, irrational and unfair.²⁹
32. The Committee was also pleased to hear of the various ways in which, since devolution, FCW has used the potentially complex governance arrangements under which it is both a part of FCGB and a 'virtual division' of the Assembly Government.³⁰ Mr Owen told us that paradoxically, since devolution, FCW and the Forestry Commissions in England and Scotland have more worked more effectively together to jointly develop operational practices and share good practice.³¹ He also emphasised that FCW has ensured that Wales has its fair say in the delivery of joint services, such as Human Resources and Information Technology.³²
33. Mr Brodie made a similar point, asserting that, since devolution, FCW has developed a greater role in developing the research agenda of FCGB.³³
34. Mr Owen also stated that FCW has used the current arrangements to play its part on the world stage.³⁴
35. While it is clear that FCW has made significant steps in delivering against a broadening agenda, the Assembly Government is currently revising its vision of what it expects FCW to deliver in the future. This, Mr Brodie told us, makes the Auditor General's report particularly timely and constructive.³⁵

²⁷ The Assembly Government's Technical Advice Note (TAN) 8 concluded that onshore wind farms should be restricted to seven specific areas, known as Strategic Search Areas.

²⁸ Annex A, paragraph 25

²⁹ Annex A, paragraph 24 and AGW report, paragraph 1.25

³⁰ AGW report, paragraph 1.33

³¹ Annex A, paragraph 16

³² Annex A, paragraph 16

³³ Annex A, paragraph 17

³⁴ Annex A, paragraph 15

³⁵ Annex A, paragraph 10

FCW's internal management needs to be sharper to deliver better value for money

FCW needs to articulate a clear strategy and communicate it effectively to its staff

36. The Auditor General identified a perceived lack of clarity amongst some staff about organisational priorities³⁶ creating cultural challenges and organisational tensions within FCW.³⁷ This situation is likely to reflect the changed and changing remit under which FCW operates and the broader social, economic and environmental objectives it has been set under *Woodlands for Wales*, as tensions centred upon the extent to which FCW should engage in activities beyond the production of timber.³⁸ Clarifying the purpose and priorities of FCW will be vital to securing optimum value for money from the six per cent of Welsh land it manages.
37. There was also a perception amongst some staff that FCW has developed a top heavy structure at the expense of administrative and traditional front line forestry staff.³⁹ Consequently FCW needs to improve internal communications to ensure that all staff have a clear understanding of the organisation's objectives and their role in achieving these.⁴⁰
38. We agree with Mr Brodie that effective internal communication in times of change is essential and welcome the following steps that FCW is taking to improve its internal communications to address weaknesses highlighted by the Auditor General's report.⁴¹ In particular FCW:
- is developing a communications plan to support the launch of the revised *Woodlands for Wales* strategy;
 - has created a communications forum of key opinion formers at middle management level to work with its communications team to identify practical things which can be done to ensure effective internal communication;
 - has decided to publish its staff newsletter bimonthly, rather than periodically; and
 - now publishes the decisions of its management board within 48 hours.⁴²

³⁶ AGW report, paragraph 2.2, Figure 7 and Appendix 4

³⁷ AGW report, paragraphs 2.3, 2.4 and 2.59

³⁸ AGW report, paragraph 2.59

³⁹ AGW report, paragraph 2.60 and Appendix, Figure 2

⁴⁰ AGW report, paragraph 2.62 and Appendix 4, Figure 2

⁴¹ AGW report, Recommendation 13

⁴² Annex A, paragraphs 105 to 106

39. We note Mr Brodie's optimism that Mr Owen and his team, through some of the mechanisms outlined above, will be able to effectively communicate to all staff (including those who believe that FCW should focus solely on planting and harvesting trees) the need for forestry to deliver a range of social, economic and environmental objectives.⁴³
40. Mr Owen explained that those revising the *Woodlands for Wales* strategy have spent a lot of time thinking about the outcomes they wish to see for forestry in Wales.⁴⁴ The revision of *Woodlands for Wales* provides a number of opportunities to improve communication and the management of individual staff so that they more clearly understand FCW's strategic direction.
41. There is a need for FCW to improve the performance management of individual members of staff, particularly in terms of setting individual objectives. While there are clear links between the personal objectives of senior members of staff and FCW's corporate objectives, this approach has not been consistently cascaded to staff of other grades. Some managers reported that the absence of a clear set of corporate priorities makes it difficult to manage staff as they are unable to articulate to staff why they should be doing some things and not doing others.⁴⁵
42. The Auditor General reported that FCW's recently developed Policy and Programme team will play a central role in the process of developing a more robust corporate approach to performance management. This team is tasked with both developing a clear corporate direction and ensuring that individual forward job plans reflect this agreed approach.⁴⁶

FCW's approach to resource management has not been sufficiently long-term and core business processes are weak, which is to the detriment of value for money. FCW has met key statutory financial targets

43. The Assembly Government agrees with FCW a budget for three years based on forecasts of FCW's likely timber income which is highly volatile due to fluctuations in market prices. In 2007-08, FCW received £22.3 million of its annual £45 million turnover from the Assembly Government. FCW generates around £9 million annually from timber sales. FCW also receives funds from

⁴³ Annex A, paragraph 109

⁴⁴ Annex A, paragraph 51

⁴⁵ AGW report, paragraph 2.8

⁴⁶ AGW report, paragraph 2.8

European grant schemes.⁴⁷ Mr Owen told us that FCW tried to keep running costs within the agreed budget.⁴⁸ His commitment to this goal is demonstrated by the Auditor General's finding that FCW met its key statutory financial targets in 2006-07 and 2007-08.⁴⁹

Weaknesses in core business processes have hindered the development of a longer term approach to achieving value for money from FCW's management of its resources

44. The Committee is however concerned that FCW has been operating with (and continues to operate with) significant and longstanding weaknesses in its core business processes, to the detriment of value for money. Despite the long-term nature of the forestry business, FCW's approach to financial management is short-term and its core business processes do not consistently support the delivery of its strategic priorities.⁵⁰
45. Consequently, we welcome the fact that the Minister is currently engaged in following up a recent consultation exercise to look fundamentally at what the Assembly Government is trying to buy through the 6 per cent of Wales's land area which FCW manages on its behalf.⁵¹ One element of this process should be to clarify FCW's approach to maximising the income it generates from the significant amount of land it manages, which considers opportunities beyond timber sales.
46. Business planning is short-term and driven by financial rather than strategic considerations, and FCW has not developed a corporate business plan linked to its corporate strategy.⁵² Financial planning is short-term and poorly linked to strategic objectives with no medium-term financial planning beyond the three year budget cycle.⁵³ Spending is heavily weighted towards the end of the financial year as FCW waits for greater certainty regarding its timber income.⁵⁴
47. There have been particular problems with procurement and asset management, which have led to a short-term approach to capital investment.

⁴⁷ AGW report, paragraph 2.19

⁴⁸ Annex A, paragraph 94

⁴⁹ AGW report, paragraph 1.7 and Appendix 3, Figure 3

⁵⁰ AGW report, summary paragraphs 11 and 12 and Annex A, paragraph 65

⁵¹ Annex A, paragraph 10

⁵² AGW report, paragraphs 2.5 to 2.7

⁵³ AGW report, paragraph 2.29

⁵⁴ AGW report, paragraph 2.23 and Figure 12

FCW does not have a medium-term, costed capital programme in place. This has been a barrier to applications for capital monies from the Assembly Government and has led to capital expenditure which is reactive rather than planned.⁵⁵

48. Procurement is sometimes undertaken at a unit or district level with little central coordination and use of procurement expertise. This has led to an approach which is not joined up and which fails to achieve economies of scale. We were pleased to hear that FCW has now recruited a procurement specialist to address the procurement issues inherent within the organisation.⁵⁶
49. There has also been an absence of strategic estates planning. Unlike in Scotland, FCW and the Assembly Government have not agreed a clear corporate strategy for repositioning of the forest estate to better achieve FCW's objectives. Moreover, under the current funding arrangement, FCW is unable to utilise any receipts from sales beyond the year of disposal which further hinders the repositioning of the forest estate.⁵⁷
50. Mr Owen reported that in the past, the stop/start capital situation has almost been used as an excuse not to plan. He has commissioned a piece of work to develop an asset management strategy for the £6 million built estate on FCW land to ensure that those assets are fit for purpose; this will produce an Asset Management Plan, which FCW does not currently have, to determine whether assets are needed and/or are in the right place.⁵⁸

Levels of staffing are falling and may compromise the effective long-term running of the business if FCW is asked to deliver additional responsibilities

51. Staff numbers have fallen in FCW between 2004 and 2007 whilst numbers in the Forestry Commissions in England and Scotland have increased. FCW expects numbers to fall further over the next three years, while in England and Scotland they will continue to rise.⁵⁹
52. The Auditor General reported that staff at FCW and FCGB have expressed concern regarding FCW's ability to accommodate a further broadening

⁵⁵ Annex A, paragraph 78 and AGW report, paragraph 2.33

⁵⁶ Annex A, paragraph 60

⁵⁷ AGW report, paragraph 2.34

⁵⁸ AGW report, paragraph 2.33

⁵⁹ AGW report, paragraph 2.56

agenda without additional capacity.⁶⁰ Mr Owen told us that, while he is confident that FCW has the levels of staff and expertise needed to run the current business, FCW does not have the capacity, and possibly the capability, within the current settlement to take on additional responsibilities.⁶¹ Mr Owen also reported that in recent years FCW has not been able to fill existing vacancies due to the budget settlement with the Assembly Government, which has flat-lined for three years.⁶²

53. We are pleased that FCW has put in place a staffing action plan for Wales. However, we are concerned that staff do not share the view that the current capacity of the organisation is sufficient and consider there to be a risk that staff are under pressure to deliver within existing resources.⁶³
54. In addition, the Auditor General reports a lack of succession and contingency planning within the organisation. As a small organisation, reliant on a relatively small number of staff, clear succession and contingency planning is key for the longer term continuity of the business.⁶⁴
55. When finalised, the new *Woodlands for Wales* strategy should be clearly linked to workforce planning to ensure that over the long-term FCW has the necessary levels of staff and expertise to deliver its objectives.

FCW has relied on short-term EU funding for key projects without clear exit strategies

56. FCW has in recent years been successful in drawing on EU funding streams to deliver core aspects of its business such as community development (through the successful Cydcoed programme⁶⁵) and the use of wood as a fuel (through the WEBS). These EU funds are time-limited and ended in 2008.⁶⁶ Mr Owen noted that FCW have been maintained the majority of staff employed under these projects, but also highlighted lessons FCW had learned from mistakes in having to use some baseline resources to ensure the delivery of some of the early Objective 1 projects.⁶⁷ However given that the funding FCW relied upon to deliver these projects came to end in 2008, it

⁶⁰ AGW report, paragraph 2.57

⁶¹ Annex A, paragraph 95

⁶² Annex A, paragraph 94

⁶³ AGW report, paragraph 2.58 and Figure 24

⁶⁴ AGW report, paragraph 1.41

⁶⁵ Annex A, paragraphs 39-40

⁶⁶ AGW report, paragraphs 1.18, 1.20 and Case Study B

⁶⁷ Annex A, paragraph 101

is important that FCW develops costed plans for continuation of these projects, if ongoing evaluation suggests their effectiveness. In addition, FCW needs to ensure that all future projects have fully costed bids and clear exit strategies from the outset.

The current economic climate may exacerbate management weaknesses further limiting the effective of trade-offs between potentially competing objectives

The Assembly Government and FCW have not developed a management framework for forestry that captures the cross-cutting strategic direction and allows the effective management of trade-offs between potentially competing objectives

It has been difficult for FCW to set clear strategic priorities because of a lack of clarity in the original *Woodlands for Wales* strategy

57. We were interested in why the Auditor General found that, some seven years after the publication of the original *Woodlands for Wales* strategy, FCW had not developed clear strategic priorities which had, in turn, contributed to internal tension and conflict. Mr Owen put this down to a number of factors:

- at the time of developing *Woodlands for Wales* FCW was engaging with Government policy development in Wales for the first time since responsibility was devolved from the UK Government to the National Assembly for Wales;⁶⁸
- *Woodlands for Wales* did not clearly identify the trade-offs that FCW was expected to achieve between potentially conflicting economic, social and environmental objectives, nor did it clearly articulate the practicalities of delivering some of the stated objectives;⁶⁹
- although the 2001 strategy was successful in the sense that it highlighted a number of areas where FCW and woodlands more generally could play an expanded role, rather than merely focusing on timber production. However as pointed out by Mr Brodie it did not bottom out the hard choices and trade-offs that needed to be made;⁷⁰

⁶⁸ Annex A, paragraph 47

⁶⁹ Annex A, paragraph 48

⁷⁰ Annex A, paragraph 49

- that FCW has probably struggled to get the necessary commitment from other parts of the Assembly Government to deliver *Woodlands for Wales* objectives;⁷¹ and
- during the last seven years FCW has managed a number of projects delivered through EU structural funds which has further stretched FCW's capability and capacity.⁷²

58. Clearly it is important to avoid a repetition of these problems in revising the *Woodlands for Wales* strategy. In particular, FCW and the Assembly Government need to ensure that there are more robust systems to support the agenda and deal with emerging problems with greater dynamism and speed.

FCW's performance indicators are not effectively aligned with the strategic direction for woodlands and forestry in Wales

59. The Auditor General reported that neither FCW's corporate performance indicators nor key performance indicators (KPIs) are currently aligned to the *Woodlands for Wales* strategy. This makes it difficult to track the progress made by FCW in delivering against the key forestry strategy for Wales.⁷³

60. We agree with the Auditor General that a key priority for FCW is to align its corporate plan with the Assembly Government's *Woodlands for Wales* strategy. The currently broad remit for forestry in Wales makes it particularly important that FCW uses its corporate planning processes to identify (very much more precisely than it has previously) how it is going to contribute to a whole range of social, economic and environmental objectives for forestry.

61. Consistent with the Auditor General's recommendations for FCW to improve its corporate performance management, we welcome Mr Owen's plans to synchronise FCW's corporate plan, KPIs and the intended outcomes of the revised *Woodlands for Wales* strategy.⁷⁴ He told us that he plans to have two sets of indicators in future: a small number relating to the woodland strategy, and a small number of business indicators that should not change too often to allow tracking of business trends over time.⁷⁵

⁷¹ Annex A, paragraph 48

⁷² Annex A, paragraph 48

⁷³ AGW report, paragraph 2.10

⁷⁴ Annex A, paragraph 48

⁷⁵ Annex A, paragraphs 52-53

62. We asked Mr Brodie what the Assembly Government was doing to ensure that it was well placed to assess FCW's performance in delivering the Assembly Government's strategic objectives for forestry. We note Mr Brodie's response that FCW's position as a 'virtual division' of the Assembly Government means that it is not operating at arm's length from the Department for Rural Affairs in delivering the Assembly Government's strategic objectives for forestry.⁷⁶

FCW and the Assembly Government need to more effectively measure and manage trade-offs between potentially conflicting objectives and interests

63. *Woodlands for Wales* sets out the range of social, environmental and economic objectives FCW is required to deliver. The potentially conflicting nature of these objectives means that FCW needs to both articulate and achieve 'trade-offs' between these objectives. In other words, FCW needs to prioritise across its objectives, with the likely effect that it will need to articulate which activities it will carry out more and which activities it will carry out less.

64. Staff also identified the need to clearly identify organisational priorities and articulate trade-offs.⁷⁷ Staff interpreted this failure to clearly articulate the trade-offs as a lack of corporate direction and leadership. Mr Owen felt that FCW's ability to do this had been hampered by the failure of the original *Woodlands for Wales* strategy to clearly identify trade-offs.⁷⁸ However the Auditor General found that the following weaknesses in its core business processes also impeded FCW's ability to do this:

- FCW's corporate plan (2005-06 to 2007-08) did not clearly establish FCW's priorities, nor did it set out the associated resource requirements.⁷⁹
- Business planning within FCW is driven by financial considerations (rather than strategic drivers), with business plans acting in effect as budgetary submissions aimed at maintaining current services. This approach means that FCW is not well placed to respond to a changing a forestry agenda by changing the balance of its

⁷⁶ Annex A, paragraph 55

⁷⁷ AGW report, paragraph 2.2

⁷⁸ Annex A, paragraph 48

⁷⁹ AGW report, paragraph 2.2

activities– as business planning necessarily supports maintaining the status quo.⁸⁰

- FCW does not carry out rigorous medium-term financial planning – in part due to the Assembly Government’s net deficit funding arrangement. The absence of such planning compromises FCW’s ability to measure trade-offs between potentially competing strategic objectives. For example, FCW does not have a clear understanding over the medium-term of the impact on income were it to reduce levels of timber production in favour of greater investment in the social aspects of forestry.⁸¹

65. More promisingly, the Auditor General also identified a number of ongoing developments which should improve FCW’s capacity to achieve the right balance between the range of differing objectives. The Auditor General found that the process of revising the *Woodlands for Wales* strategy should provide FCW with the opportunity to explore and prioritise the trade-offs that it will need to manage to deliver the Assembly Government’s various objectives for forestry in Wales.⁸² Mr Owen told us that this was a second opportunity to do better in bottoming out some of the key issues of practical delivery in the woodlands strategy, signalling his determination to achieve better results this time.⁸³

66. We were therefore glad to hear from Mr Brodie that the Assembly Government shares the Auditor General’s perspective. He told us about the Assembly Government’s commitment to use the process of revising *Woodlands for Wales* to look fundamentally at what it is trying buy in terms of public goods with the funding it provides FCW to manage six per cent of Welsh land, and to examine future trade-offs to provide a clearer future direction for FCW.⁸⁴

67. Other improvements identified by the Auditor General as likely to enhance FCW’s capacity to manage trade-offs include:

- the introduction of Accounting by Objectives (ABO), which classifies programmes and the resources needed to deliver them according to strategic objectives; this

⁸⁰ AGW report, paragraph 2.5

⁸¹ AGW report, paragraph 2.29

⁸² AGW report, summary paragraph nine

⁸³ Annex A, paragraphs 47-48

⁸⁴ Annex A, paragraphs 10 and 49

should give FCW a better understanding of how it currently deploys its resources. Going forwards we would expect ABO to better enable FCW to redirect resources to meet a changing forestry agenda;⁸⁵ and

- FCW's timber harvesting programme is underpinned by a five year production (or harvesting plan) known as the U18. The U18 sets out what timber will be harvested, when and by which method (for example, direct production or the more profitable standing sales). In the future FCW intends to include a cash flow prediction, based on the net discounted rate within the U18. This will enable those developing U18s to understand the impact of changing levels of timber production (in response to a changing set of agreed trade-offs) on income.⁸⁶

Not all external stakeholders support the Assembly Government's vision of forestry, which highlights the risk of increased conflict if the strategic agenda changes further

68. Working with appropriate partners, FCW is required to deliver the Assembly Government's multi-purpose vision of forestry. Such diversity of purpose necessarily means that FCW serves a variety of stakeholder groups representing a range of interests.⁸⁷
69. The Auditor General found that these different groups had competing expectations of FCW and held divergent views about the appropriate future direction for forestry in Wales.⁸⁸ Opinions were most divided about the extent to which FCW should focus its activities on harvesting timber for its traditional customers. The Auditor General also received some correspondence which was critical of FCW's role in supporting the Assembly Government's National Windfarm Programme.⁸⁹
70. Both Mr Owen and Mr Brodie also agreed that there was potential for conflict between FCW and its stakeholders in the future. Mr Owen referred to possible competition, which he viewed as healthy, between FCW's traditional timber customers and the wood-based renewable energy market, were FCW to increase the amount of timber it releases for use as fuel.⁹⁰

⁸⁵ AGW report, paragraph 2.30

⁸⁶ AGW report, paragraph 2.38

⁸⁷ AGW report, paragraph 1.1

⁸⁸ AGW report, paragraph 2.66 and Figure 26

⁸⁹ AGW report, paragraph 2.66

⁹⁰ Annex A, paragraph 76

71. Mr Brodie stated that some commercial stakeholders, such as those who buy timber from FCW, feel threatened by the changing vision for forestry in Wales and fear that in the longer term there will be an insufficient supply of timber to support their businesses.⁹¹
72. Given the potentially conflicting needs of FCW's various stakeholders, we welcome Mr Owen's statements about the processes FCW has in place to ensure that it maintains good relationships with stakeholders, particularly its commercial timber customers. As stated by Mr Owen, at the heart of FCW's approach to working with this group is the need to ensure that customers are well informed about any changes in direction and that any such changes take place gradually and represent a consistent approach to doing business so that FCW sticks to what it says it was going to do.⁹² To support this approach:
- FCW has published a marketing plan which clearly states the volume of timber that it will bring to the market; and
 - FCW has developed a long-term production forecast that looks 20 years ahead.⁹³
73. When asked about how the Assembly Government was supporting FCW in managing changing expectations, Mr Brodie highlighted what he saw as the strength of the face-to-face communications which exist between FCW and commercial stakeholders and assured the Committee of his belief that Mr Owen and his team would continue to make such communication a priority so that external stakeholders understand any process of change determined by the Minister.⁹⁴

The Welsh Assembly Government is not yet internally joined up in terms of delivering cross-cutting themes relevant to forestry, such as climate change

74. *Woodlands for Wales* identified a range of social, environmental and economic objectives for forestry, which included:
- using woodlands as a social and cultural asset for some of the most deprived communities in Wales;
 - promoting health through access to woodlands for all communities; and

⁹¹ Annex A, paragraph 108

⁹² Annex A, paragraph 87

⁹³ Annex A, paragraph 87

⁹⁴ Annex A, paragraph 108

- conserving and enhancing the biodiversity of Welsh woodlands.⁹⁵

75. Meeting such wide objectives requires effective joint working both across the Assembly Government's own departments and more widely across the Welsh public service. Indeed Mr Owen identified the biggest challenge for his organisation as developing an effective response to a broadening cross-cutting agenda particularly related to climate change, which is relevant to so many of the portfolios within the Welsh Assembly Government.⁹⁶
76. Mr Brodie concurred, stating that achieving value for money in the use of the public pound required working in a joined up way to deliver across the whole range of social, economic and environmental objectives.⁹⁷ There are clear links between value for money from forestry and the wider sustainable development agenda, reflecting the need to take a long-term view of the role and potential impact of forestry in balancing social, economic and environmental considerations.
77. Given such a broad-ranging role for forestry, which cuts across a number of Ministerial portfolios, we were also interested in what the Assembly Government was doing to ensure that its own departments were working together effectively to deliver the cross cutting objectives of forestry. Mr Brodie told us that the Assembly Government has introduced a Policy Gateway process⁹⁸ to enhance its capacity to develop, at a strategic level, a coherent governmental response to cross-cutting policy areas such as housing, climate change, sustainability and energy generation.⁹⁹
78. Mr Brodie also told us that the Assembly Government used the Policy Gateway process to develop the consultation document on revising *Woodlands for Wales*.¹⁰⁰ It is the Assembly Government's intention to repeat the Policy Gateway process when the draft strategy document has been refined to reflect the consultation responses. Through this process, Mr Brodie

⁹⁵ *Woodlands for Wales*, Welsh Assembly Government, 2001

⁹⁶ Annex A, paragraph 12

⁹⁷ Annex A, paragraph 109

⁹⁸ Central to the Policy Gateway process is a facilitated meeting which involves representatives from a range of Assembly Government departments using the Policy Gateway tool to test proposed strategies for consistency with the Assembly Government's wider strategic objectives.

⁹⁹ Annex A, paragraphs 20-21

¹⁰⁰ The results of the Policy Gateway exercise undertaken on the 2008 *Woodlands for Wales* consultation document can be found at

[http://www.forestry.gov.uk/pdf/Policygatewaysummarysheetwfwconsultation.pdf/\\$FILE/Policygatewaysummarysheetwfwconsultation.pdf](http://www.forestry.gov.uk/pdf/Policygatewaysummarysheetwfwconsultation.pdf/$FILE/Policygatewaysummarysheetwfwconsultation.pdf)

assured us, the Assembly Government would be able to articulate the links between departments, which are needed to deliver on those cross cutting themes relevant to forestry.¹⁰¹

79. However the Assembly Government's approach to meeting its own target of generating 800 Megawatts of electricity from onshore windfarm developments¹⁰² made us question whether the Assembly Government's cross-cutting approach is fully effective in delivering this broader agenda. Mr Owen told us that the installed capacity of the six bids to operate wind farms across Wales would generate 752 megawatts (or some 94 per cent of the Assembly Government's target of 800 MW).¹⁰³ Given the shortfall in capacity, we were interested in the Assembly Government's plans to further increase renewable energy from onshore wind developments to meet the target. Mr Brodie told us that he was unable to give us any further information about this, as this policy area was the responsibility of another Director (of the Department for Housing, Environment and Sustainability).¹⁰⁴ This Director subsequently provided a note setting out how the Assembly Government intends to ensure that within 20 years Wales can generate as much electricity from renewable sources as it consumes. The note also describes how the Assembly Government annually monitors progress against the TAN 8 target and its intentions to revise this target upwards, as part of developing an Energy Strategy for Wales. However, the note does not identify what actions the Assembly Government will take to make up the shortfall in meeting the TAN 8 target¹⁰⁵.

The current approach to funding has contributed to FCW's short term approach to managing its resources

80. FCW is funded via a net deficit funding arrangement put in place by the Assembly Government. Under this arrangement, the Assembly Government agrees a budget for three years with FCW based on the difference between the total estimated budget for FCW and the estimated timber income that FCW predicts that it will receive. FCW's timber income is volatile due to prevailing market conditions and fluctuating timber prices. The Assembly

¹⁰¹ Annex A, paragraph 21

¹⁰² AGW report, paragraph 1.23

¹⁰³ Annex A, paragraph 25

¹⁰⁴ Annex A, paragraph 35

¹⁰⁵ Annex B

Government may provide FCW with additional funding beyond its baseline budget, but the amount and timing of this is uncertain and FCW cannot guarantee that the Assembly Government will meet any shortfalls in its timber income.¹⁰⁶ As Mr Brodie stated, there is a clear risk of conflict between FCW's commercial operations and the potential broader benefits from eco-systems.¹⁰⁷

81. In addition, the Assembly Government does not allow FCW to hold cash reserves or equity capital *beyond carrying forward two per cent of its net cash requirement*.¹⁰⁸ As such, the Assembly Government has developed a *short-term approach to funding* an organisation with a long-term business cycle.¹⁰⁹ This has contributed to FCW's short-term approach to expenditure¹¹⁰ and the weaknesses in its core business processes noted earlier in this report.
82. Mr Owen said that the fact that FCW cannot be assured of its timber income until probably the last few weeks of the financial year means that it is effectively forced to hold back in year reserves to avoid an overspend. If FCW overspends, this is a serious matter. Consequently, if timber income comes in as forecast, FCW is forced to either invest some of it very late in the year or hand it over to the Assembly Government. Mr Owen described it as a 'ridiculous financial model' in which to be operating and expressed his confidence that he could deliver much greater value for money with a different funding model that allowed some reserves to be carried over to allow investment of income during periods of strong sales and ongoing investment in maintaining key social and environmental programmes when there is a short-term downturn in the timber market. Increased flexibility of this type would also support investment in capital equipment and staff.¹¹¹
83. Mr Brodie stated that, if FCW is to deliver in a coherent way across the whole range of social, economic and environmental objectives, the Assembly Government needs to tackle the issues surrounding the current funding

¹⁰⁶ AGW report, paragraph 2.21

¹⁰⁷ Annex A, paragraph 49

¹⁰⁸ AGW report, paragraph 2.25

¹⁰⁹ AGW report, paragraph 2.21

¹¹⁰ AGW report, paragraphs 2.22 to 2.24

¹¹¹ Annex A, paragraph 65

mechanisms.¹¹² However, any changes will need to recognise and balance the competing risk that affording greater flexibility to FCW could reduce financial flexibility available elsewhere within the Welsh public service.

84. The Committee considers the current funding mechanism a key issue underlying many of the problems identified in the Auditor General's report. As such, we consider that the current funding mechanism is not fit for purpose and militates against a longer term approach to financial planning in what is a long-term business. However, any review of the funding mechanism would need to ensure that any trade-offs in terms of financial flexibility elsewhere within the Welsh public service were sensible and prudent.

The current global economic problems could exacerbate the lack of flexibility in the funding framework which militates against a longer term approach to managing the forestry business

85. The lack of flexibility within the current funding arrangements could be compounded by pressures arising from the global economic situation. The current economic climate will place additional pressures and uncertainties on demand for timber and risk reducing FCW's income from sales. This could exacerbate the weaknesses and short-term nature of some of FCW's core business processes. Mr Owen confirmed that the downturn in the housing market has been extremely rapid and has impacted very quickly on the timber processing sector that supplies timber for housing. He also told us that demand had already fallen, with the industry not likely to uplift the full 770,000 cubic metres of timber produced because of the economic situation.¹¹³
86. Effective management of the key business risks, such as fluctuating timber income, will be fundamentally important in the current economic climate. FCW's risk management processes need to be improved by making clearer links to corporate objectives, introducing individual risk registers for key business areas such as timber income and ensuring that key risks are managed more proactively by specific risk owners and reported to management on at least a quarterly basis.¹¹⁴

¹¹² Annex A, paragraphs 72 and 74

¹¹³ Annex A, paragraph 87

¹¹⁴ AGW report, paragraphs 2.18 to 2.19

87. The Auditor General's report highlights concerns within the private sector with regards to forecasting and highlights the need for FCW to better manage the expectations of the timber industry now and in the future.¹¹⁵ This is key given the uncertainty and volatility in the current economic climate.
88. The Committee is pleased to note Mr Owens's comments regarding FCW's commitment to working with its timber customers to adapt to the changing market conditions and to work together for a constructive approach to the current situation, particularly the crucial need to sustain and preserve small Welsh business during the current situation. In addition, the growth of the wood-based renewable energy market is also particularly pleasing in these uncertain times.¹¹⁶

¹¹⁵ AGW report, paragraph 2.41

¹¹⁶ Annex A, paragraph 76

Annex A



**Cynulliad Cenedlaethol Cymru
The National Assembly for Wales**

**Y Pwyllgor Archwilio
The Audit Committee**

**Dydd Iau, 27 Tachwedd 2008
Thursday, 27 November 2008**

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Cofnodir y trafodion hyn yn yr iaith y llefarwyd hwy ynndi yn y pwyllgor. Yn ogystal, cynhwysir cyfieithiad Saesneg o gyfraniadau yn y Gymraeg.

These proceedings are reported in the language in which they were spoken in the committee. In addition, an English translation of Welsh speeches is included.

Aelodau Cynulliad yn bresennol
Assembly Members in attendance

Lorraine Barrett	Llafur Labour
Eleanor Burnham	Democratiaid Rhyddfrydol Cymru Welsh Liberal Democrats
Chris Franks	Plaid Cymru The Party of Wales
Janice Gregory	Llafur Labour
Irene James	Llafur Labour
Bethan Jenkins	Plaid Cymru The Party of Wales
Huw Lewis	Llafur Labour
David Melding	Ceidwadwyr Cymreig (Cadeirydd y Pwyllgor) Welsh Conservatives (Committee Chair)
Darren Millar	Ceidwadwyr Cymreig Welsh Conservatives

Eraill yn bresennol
Others in attendance

Huw Brodie	Cyfarwyddwr Materion Gwledig a Threftadaeth, Llywodraeth Cynulliad Cymru Director of Rural Affairs and Heritage, Welsh Assembly Government
Jeremy Colman	Archwilydd Cyffredinol Cymru Auditor General for Wales
Huw Davies	Pennaeth yr Uned Fusnes, Materion Gwledig a Threftadaeth, Llywodraeth Cynulliad Cymru Head of Rural Affairs and Heritage Business Unit, Welsh Assembly Government
Ian Gibson	Dirprwy Bennaeth, Uned Llywodraethu Corfforaethol, Llywodraeth Cynulliad Cymru Deputy Head, Corporate Governance Unit, Welsh Assembly Government
Trefor Owen	Cyfarwyddwr, Comisiwn Coedwigaeth Cymru Director, Forestry Commission Wales
Ceri Stradling	Swyddfa Archwilio Cymru Wales Audit Office

Swyddogion Gwasanaeth Seneddol y Cynulliad yn bresennol
Assembly Parliamentary Service officials in attendance

Karl Gomila	Dirprwy Glerc Deputy Clerk
John Grimes	Clerc Clerk

Dechreuodd y cyfarfod am 1.30 p.m.
The meeting began at 1.30 p.m.

Ymddiheuriadau a Dirprwyon Apologies and Substitutions

[1] **David Melding:** Good afternoon. I welcome everyone to this meeting of the Audit Committee. I will start with the usual housekeeping announcements. These proceedings can be conducted in English or Welsh. When Welsh is spoken, there is a simultaneous translation on channel 1 of the headsets. Should you be hard of hearing, you can amplify our proceedings on channel 0. Please switch off all electronic equipment completely, rather than leaving them on 'silent' mode, as they interfere with our recording equipment. We do not anticipate a fire drill this afternoon, so, should the fire alarm sound, please follow the instructions of the ushers, who will ensure that we leave the building safely.

[2] We have received an apology from Lesley Griffiths, who is unwell. All other committee members are in attendance.

1.31 p.m.

Gweithgareddau'r Comisiwn Coedwigaeth yng Nghymru Operations of the Forestry Commission Wales

[3] **David Melding:** Our substantive item this afternoon is a discussion on the findings of the auditor general's report, 'Operations of the Forestry Commission Wales'. The auditor general's report shows that, while FCW has succeeded in delivering against a broadening forestry agenda, significant challenges remain. FCW needs to develop its core business process and to better manage its resources and its relationships with staff and external stakeholders. Financial pressures, and the financing arrangements for FCW, feature prominently in the report.

[4] We have appearing before us today witnesses from the Welsh Assembly Government and Forestry Commission Wales. I welcome you all to this meeting. Please introduce yourselves to the committee, so that you will be known to those who produce the transcript of our proceedings.

[5] **Mr Brodie:** I am Huw Brodie. I am the director of Rural Affairs and Heritage for the Welsh Assembly Government.

[6] **Mr Davies:** I am Huw Davies. I am the head of the Business Unit in the Welsh Assembly Government's Department for Rural Affairs.

[7] **Mr Owen:** I am Trefor Owen, the director of Forestry Commission Wales.

[8] **David Melding:** Welcome to the meeting, gentlemen. Huw Brodie is familiar with how this committee operates; I suspect that the other two witnesses are appearing before us for the first time. We have a set number of questions that the committee has agreed to put to you. Some questions may just be for Mr Brodie, and others will be specifically to the other witnesses. You may want to come in if you have a relevant comment that will add to our evidence—you can attract my eye to do that. I believe that you will find that how the meeting operates is fairly obvious. Members will ask questions in turn. As Chair, I have the prerogative of asking the first question.

[9] From the introduction, we can see that this report has some positive comments and some challenges. I will ask you for a general, short answer to the first question, Huw, before we drill down to the detail in subsequent questions. How do you see this report in terms of identifying the main opportunities and threats to the organisation?

[10] **Mr Brodie:** I believe that Trefor and I would want to say, from our respective positions as accounting officers, that we believe that this is a constructive, timely report. As the report notes, the Minister is currently engaged in following up a recent consultation exercise, which looks fundamentally at what we are trying to buy in terms of public goods with our funding from what is 6 per cent of Wales's land area. That is fundamentally how we are trying to examine the trade-offs, as the report highlights, so that we can develop a clear direction for the future, which can be clearly understood by staff, stakeholders, and so on. The report's recommendations not only highlight that but also underline several of the key things that we will need to do in following up, in terms of funding systems and performance, and the corporate planning process, and so on. I think that Trefor would probably like to add something at this point.

[11] **David Melding:** We will go into particulars later, but could you give your initial, general, response to the report?

[12] **Mr Owen:** I agree with what Huw said in his introduction. Chair, you asked about the challenges and the opportunities before us. I see the biggest challenge for the organisation as being able to respond effectively to what is a broadening, cross-cutting agenda particularly related to climate change, which hits so many of the portfolios within the Welsh Assembly Government. It has been exciting, over the past few years, widening that agenda. However, as we do that, we must raise our game in being relevant in key areas of the overall policy environment.

[13] **David Melding:** Thank you for that. We will now start to look at some of these issues in greater detail.

[14] **Huw Lewis:** My question perhaps follows on from Trefor's comments about the widening agenda of the Forestry Commission, which differs from the historical timber management work. The job description is changing all the time. I would like to probe a little on that and ask you about Forestry Commission Wales's links with the rest of the UK with regard to forest management—that is, in Scotland and England. Are ideas and best practice being exchanged between the three forestry commissions on a regular basis? Is this ongoing?

[15] **Mr Owen:** Very much so. The Forestry Commission remains a single GB entity, but has responded to devolution through administrative arrangements. As far as Wales is concerned, I take my policy lead and resourcing from the Welsh Assembly Government, as Forestry Commission England and Forestry Commission Scotland do from their respective administrations. That leaves us with some reserved matters that are dealt with on a GB basis. I have some GB responsibilities for reserved matters. These relate to sovereign state issues relating to international forestry matters, which is particularly relevant these days when we think about the global challenges such as deforestation and greenhouse gas emissions. So, we play our part on the world stage in that respect.

[16] We also share our research efforts across GB, because it would be ridiculous for the three countries to duplicate common areas of research, although there are opportunities for each country to specify bespoke requirements to meet their particular needs. We probably work together and share best practice more today than we ever have, which is perhaps a bit paradoxical when you think about devolution. We draw our corporate services from a central core, and the three countries act as commissioning agents and managers for those corporate services. So, as far as Wales is concerned, we have a fair say in our human resources policies, our IT requirements and with regard to developing operational practice with colleagues in England and Scotland. So, we work more closely now than we did pre-devolution.

[17] **Mr Brodie:** I would like to add that Forestry Commission Wales is also making a

greater input to the GB-wide research agenda than in the past.

[18] **Huw Lewis:** Perhaps this is a question for Huw Brodie. There are too many Huws in committee today, are there not? There is a surfeit of Huws.

[19] The Chair touched on the cross-cutting work within the Assembly. You touched upon sustainability issues, climate change, housing, energy generation and many other areas. How are you developing that cross-cutting, cross-portfolio working within the Assembly's operation in Wales?

[20] **Mr Brodie:** Perhaps I might start off on this point. In terms of the development of the strategy, the committee may be aware that we have a policy gateway process that operates across the Assembly Government as a whole wherever we develop new strategies. It has been drawn up in light of sustainability requirements in particular to ensure that we get the relevant input from departments and that any strategies are proofed against sustainability and the Assembly Government's priorities and are properly joined-up.

1.40 a.m.

[21] The policy gateway process has been applied to the consultation document and we will go through that again when we digest the responses to consultation. Out of that, we hope that we can ensure that the links with departments—and, as you say, they have a strong interest in this—are recognised and, where appropriate, strengthened for the future.

[22] **Chris Franks:** Referring to page 23, I note that the first bidder for the windfarm contract did not complete, if that is the correct phrase, and that the second bidder was significantly less favourable financially to the commission—I think that there is a reduction in generating capacity. Can you explain why the first company that bid did as it did? Do you think that the second bidder, presumably the current contract, represents good value for money given the £21 million drop in income?

[23] **Mr Owen:** If I could go back one stage, we invited tenders for renewable energy generation on the Assembly's estate through a transparent, fair and open process of public procurement. We were offering an option agreement to successful bidders. This particular company came in with a strong financial bid. It passed the pre-qualification questionnaire, was invited to tender and passed our due diligence tests. Nevertheless, the company's board reflected on its future commitments to renewable energy in Wales and initially attempted to negotiate different terms to those that were offered to everyone else. Under the public procurement rules, we were not in a position to open up negotiation on this bid. We tried to accommodate the company's requirements within the terms of the procurement exercise as far as possible. However, ultimately, it was that company's board that made the decision to walk away.

[24] To answer your second question, we took advice from our own procurement and legal specialists on the implications of a potential reduction in income. However, we were assured and advised that because we had followed the public procurement rules to the letter and had defended an earlier, but separate, judicial review, we were in a strong position to stand our ground. We were being driven by two things: the desire to maximise renewable energy generation and to get best value. We were focused more on reaching the renewable energy targets than on reaching the financial targets. The financial targets were only part of the scoring system in evaluating bids and we were not being driven solely by the highest bid. I was given sufficient assurance as accounting officer that the proper procurement rules had and would be followed in terms of dropping down.

[25] On the reduction in generating capacity, there is not a significant difference between

the second and first bidders. I was looking at the figures only this morning; the total installed capacity of the six bids, which we now have signed with options, amounts to over 750 MW, which amounts to more than 94 per cent of the Welsh Assembly Government's onshore target for wind energy. That is for an area of land that equates to less than 57 per cent of the area covered by the strategic search areas, so the Forestry Commission is certainly punching above its weight in terms of looking to deliver significant levels of renewable energy from onshore wind in Wales.

[26] **Chris Franks:** I missed the percentage figure, sorry.

[27] **Mr Owen:** It was 94 per cent, 752 MW.

[28] **Chris Franks:** I am grateful for that information. I am surprised that a company would seek to change the arrangements having submitted a competitive tender. I have heard that, in such an event, the tenderer in question would not then be invited to tender for further contracts. Has that option been considered?

[29] **Mr Owen:** No. As far as I am concerned, we were unable to conclude the option agreement with that company, but, if there are further tender opportunities in Wales or elsewhere in the commission's estate, that company has every right to bid in the future.

[30] **Chris Franks:** In some instances, where a company tries to change the rules, that right is withdrawn.

[31] **Mr Owen:** They tried to change the rules, but we did not agree to the change and, therefore, the contract fell at that point. We did not sign the contract, so the company walked away. As far as I am concerned, they are free to bid again in the future, if they so wish.

[32] **Chris Franks:** Mr Brodie, what we are saying is that, with this arrangement, we are hitting 94 per cent of the target of 800. I get my watts wrong. They are megawatts, are they not? So, the target is 800 MW and this contract is going to provide 750 MW. Have I understood that correctly?

[33] **Mr Owen:** Subject to planning permission. [*Laughter.*]

[34] **Chris Franks:** Okay. What additional plans does the Assembly Government have to meet the TAN 8 target?

[35] **Mr Brodie:** Chair, I do not have policy responsibility for energy matters. All that happened in this instance was that the Forestry Commission was acting under a section 41 agreement because of the ownership of the land. I am afraid that that question really ought to be addressed to Matthew Quinn, the head of the Department for Environment, Sustainability and Housing. I am sorry, but it would not be appropriate for me to attempt to answer that question.

[36] **David Melding:** We are quite capable of following that up by other means. We are just going to break our cycle of questions. Have you finished, Chris?

[37] **Chris Franks:** Yes, thank you.

[38] **David Melding:** I now call Janice Gregory.

[39] **Janice Gregory:** I want to ask you about Cydcoed and the wood energy business scheme. It is quite clear from the auditor general's report and what we know about the two

initiatives that they are reliant on short-term European funding streams. I am sure that everyone around the table has seen the benefit of Cydcoed especially. I understand that an evaluation is coming out in 2008, but we are into November now, so you will forgive me for asking as I have not seen it yet. If the evaluation shows that these are effective, how are you going to be able to sustain those two initiatives, which are important to the communities involved?

[40] **Mr Owen:** You are absolutely right. The two projects were born, so to speak, on the back of the opportunities presented by structural funds. I am delighted that you share my view that they have been very successful. We all know that the Objective 1 funds were there for a specific period, and we have tried to make the very best use of those funds in the period in which they were made available to us. We thought very hard about the question that you have posed at the beginning of, and during, the projects. Obviously, evaluation is something that we have done.

1.50 p.m.

[41] Although the evaluation is not complete, as you rightly say, I do have sufficient evidence from the work done to date to make some changes in how we run our business, to try to sustain the dividends of those projects. For example, I have retained the majority of the staff with specialist skills whom we employed to design and operate the Cydcoed project. I have managed to retain them despite their contracts, technically, finishing at the end of the project. We have found them roles within the organisation by adapting existing roles. We maintain capacity and some capability in this area at the heart of the business, on the ground. Just as important, I have strengthened my policy team in the last year, so we have stronger social forestry policy capability within the team.

[42] I cannot be explicit now about the direction of travel, because we have to wait for the new woodland strategy to see the explicit Government policy. However, by reading the tea leaves and working with the grain, we are using the additional knowledge, skills and capability that we have in the organisation to work with others who work in the area of community development. For example, we are heavily engaged with other programmes that are linked to community development, and we are working closely with key partners such as the Wales Council for Voluntary Action and the Heads of the Valleys initiative. We have also been looking at some pretty innovative ways of getting higher levels of engagement in using woodlands for social enterprise in the future. I felt that much of the early engagement was at low levels to do with access, which is great, but we feel that there are opportunities to go up the pyramid of participation, to support and develop social enterprises, making good use of woodlands in their local communities.

[43] **Janice Gregory:** Thank you. That was very encouraging.

[44] **Irene James:** I want to look at paragraph 2.2 in part 2 of the report. I will wait for you to find it. It states that your

[45] ‘corporate plan for 2005-2006 to 2007-2008 does not clearly prioritise activities and associated resource requirements’.

[46] Paragraphs 2.3 and 2.4 found a lack of clear strategic priorities, which could lead to internal conflict and tension within Forestry Commission Wales. Mr Owen, can you explain how, some seven years after publication of ‘Woodlands for Wales’ in 2001, it was still found that Forestry Commission Wales needs to develop a clearer set of corporate priorities and link them to resource allocation?

[47] **Mr Owen:** I think it fair to say that when the Forestry Commission was invited to

prepare the first forestry strategy on behalf of the Welsh Assembly Government, just after devolution, we were feeling our way as a new organisation engaging with Government policy development in Wales. Prior to devolution, forestry policy was set at Westminster. We learned a lot from that exercise, but, once that woodland strategy was published in 2001, the die was, effectively, cast for how we would respond to that strategy corporately. On reflection, the woodland strategy did not bottom out some of the key issues of practical delivery.

[48] We have a second opportunity to do this currently, and I am determined that we will do a lot better. It was difficult for the organisation to respond to a very broad woodland strategy that covered a wide range of portfolio interests. We have probably struggled to get the commitment from other parts of the Assembly Government to deliver all the bits that we would have liked to deliver. So, a lot of it was left to us as an organisation to try to deal with trade-offs, and that has been quite challenging. I always go back to the issue of our corporate planning, because we have not had a very clear overall Government strategy to work towards, and we have struggled for the past six or seven years with our corporate planning, particularly because, on top of all this, the structural funds came into play, which stretched our capability and capacity even further. We have learned a lot from that exercise. We are determined that, on this occasion, we will have a corporate plan that is synchronised seamlessly with the 'Woodlands for Wales' strategy, and that is what I am currently focused on.

[49] **Mr Brodie:** I agree very much with what Trefor said. The 2001 strategy was successful in the sense that it highlighted a number of areas on the social and environmental front where the Forestry Commission and woodlands more generally could play an expanded role, rather than merely focusing on timber production. However, as Trefor says, it did not bottom out the hard choices and trade-offs, as this report captures very clearly. We are only too conscious that the funding model for the Forestry Commission locks it in to being dependent on a relatively small number of commercial contracts centred on the growing of one species, namely Sitka spruce. So, the task that the Minister has set herself in consulting on the current structure, with Cabinet support, is finding a way of bottoming out these trade-offs, thinking it through on a thoroughgoing basis, and finding a way of reconciling that type of funding conundrum of how we can ensure that we deliver in a truly joined-up way coherently across the range of what are called in awful jargon 'eco-system services', while including all the social stuff and tourism as part of that, and still recognising the commercial driver that is at the heart of so much of the Forestry Commission's funding.

[50] **Darren Millar:** I was pleased to hear you say in your response to Irene's question that there will be better alignment between the corporate plan and the 'Woodlands for Wales' strategy, given that another issue that the auditor general refers to in his report is the difficulties in measuring performance against the 'Woodlands for Wales' strategy, because of your key performance indicators. I was pleased that you noted that you had reduced the number of KPIs and were looking at rationalising them. There are always too many KPIs, and the fewer are used, the better. How will you ensure that those KPIs are properly aligned in future so that you can measure the performance going forwards? Given that the definitions for some of the key performance indicators have changed in recent years, how will you measure progress historically, because you will not necessarily be able to see further back than now?

[51] **Mr Owen:** That is right. The question of alignment is relevant, because, as I said earlier, I am in a very fortunate position of coming to the end of reviewing the 'Woodlands for Wales' strategy. That also gives me an opportunity to run our new corporate plan almost in parallel, but one step behind, obviously. So, we are in the very privileged position of being able to review the strategy on the Minister's behalf while considering what it would mean for us as an organisation at the same time. So, we have spent quite a lot of time thinking very carefully about the outcomes that will be described in the 'Woodlands for Wales' strategy. Sitting underneath those outcomes will be key priorities for action, and that is where I want to

align the Forestry Commission's corporate key performance indicators with those priorities for action, because most of the outcomes will have high-level indicators, some of which are beyond forestry and are perhaps societal or high-level environmental indicators measured by others.

2.00 p.m.

[52] As far as the priorities for action are concerned, it is important that I align the indicators in the woodland strategy with my corporate indicators, so that we can track our progress on delivering the key priorities for action in the Government's woodland strategy.

[53] The second part of your question was on numbers and changes. I propose to have two sets of key performance indicators in future: a small number will relate to the woodland strategy, as I described, and a small number of business indicators that should not change too often, so that we can track business trends in particular.

[54] **Darren Millar:** Given the Assembly Government's role in ensuring that strategic objectives are being delivered, how are you feeding into FCW's performance indicator process, as far as its corporate plan is concerned?

[55] **Mr Brodie:** The key thing is that we are an integral part of working on the strategy. We worked up the consultation document together. I am intimately involved in the process of looking at the consultation responses. Trefor and I are having a meeting on Monday with the Minister for Rural Affairs to consider that, so the process of working up the KPIs and any other wider research and evaluation that may be needed to capture fully what we need to track will be an integral part of that strategy process, which is being developed seamlessly. As the report says, Trefor, in effect, acts as one of my heads of division. So, the commission is not operating as an arm's-length, separate body in this way at all.

[56] **Darren Millar:** In the performance indicators, a key action will be to continue to develop the Welsh national forest of native trees. Can you give the Audit Committee an update on that? The auditor general refers to it, but there is no indication of precisely what has been delivered so far.

[57] **Mr Brodie:** On the whole thinking of this, after the coalition was formed, we discussed with the Minister how to handle that 'One Wales' commitment, and it was those discussions that led us to conclude that this further consultation process was needed. The whole approach is not to draw a line on a map and say, 'That is the national forest of native trees'; we are using that 'One Wales' commitment as a way of looking at the totality of what we are doing with our woods in Wales, those on Welsh Assembly Government land and also on private land. In addition, the other half of the 'One Wales' commitment is to plant a tree for every newborn child in Wales. Trefor can expand on the detail of how that is being fully implemented.

[58] **Mr Owen:** We manage the Plant! initiative, which is a 'One Wales' commitment, on behalf of the Welsh Assembly Government in partnership with the Woodland Trust and with the Office for National Statistics. Every child, or their parents, gets a certificate to tell them that a tree has been planted in the child's honour and where it is. That is working extremely well; it is not a big commitment for us to focus on, but we recognise its symbolic importance, and we are eager to ensure that there is a range of sites across all parts of Wales so that families and children can visit those areas close to where they live.

[59] **Huw Lewis:** I want to ask a question about procurement, which should be at the forefront of all our minds now as we seek to maximise the benefits for Welsh business in this economic downturn. A key flaw of the FCW, according to the report, is the bald fact that the

Forestry Commission does not have a procurement strategy. Could you explain how that will be fixed, and how quickly it will be done?

[60] **Mr Owen:** Before the report was published—it was in the process of being finalised—I was able to recruit a procurement specialist into the team in Wales. That procurement specialist works very closely with our procurement capabilities at a GB level, and I should also stress that the procurement officer has already established very strong working relationships with Value Wales here in Cardiff. We are actually adopting the Welsh Assembly Government’s sustainable procurement framework as our framework; so, we will be completely synchronised with other public services in Wales as far as sustainable procurement is concerned. My procurement officer has been tasked with bringing back to my board a delivery plan, which will include the production of a clear statement of the procurement strategy for the organisation by 1 April 2009.

[61] **Huw Lewis:** That has answered my question.

[62] **Eleanor Burnham:** I am looking specifically at paragraphs 2.20 and 2.23, particularly regarding the identification of the absence of a long-term strategic approach to financial planning, which is, apparently, partly as a result of

[63] ‘the net deficit funding arrangement...whereby FCW is reliant on income generation to balance its books’

[64] and the Assembly Government’s decision not to allow Forestry Commission Wales to hold reserves. The auditor general goes on to say that financial planning, consequently, is short-term and poorly linked with strategic objectives. How can you justify the absence of this long-term financial plan for business and the short-term approach, which may work against the Assembly Government’s longer term objectives, and the long-term nature of the forestry industry? How do you plan to improve financial management within the organisation, thereby improving value for money, in light of the auditor general’s findings?

[65] **Mr Owen:** We are probably one of the few parts of Government that actually trades on the open market—we trade in timber and some other goods and services, but predominantly timber. As Huw mentioned earlier, the fact that we cannot be assured of our timber income until probably the last few weeks of the financial year means that I am forced to hold short-term reserves back to make sure that I do not overspend. If I overspend, my accounts are qualified and I cannot afford to do that. So, I have to carry cash in reserves and then, if I find that timber income comes in as forecast, I am then forced to either hand it back to Huw or to invest late in the year. It is a ridiculous financial model in which to be operating. I am confident that I could deliver much greater value for money with a different funding model that allowed me to carry some reserves so that I could then invest income when there are good times from sales; we do have some good times, as it is a cyclical market. That would then allow me to invest those in maintaining key social and environmental programmes when there is a short-term downturn in the timber market and to invest in capital equipment and staff and so on. So, I would welcome a model of that nature.

[66] **Eleanor Burnham:** Thank God I am not doing your job. That is why figure 12 shows that you spend all of your money in the last quarter— because you do not have the confidence to spend it in the first three quarters.

[67] **Mr Owen:** Yes.

[68] **Eleanor Burnham:** How do you, therefore, manage the risk of fluctuating market prices, and what is the impact of current global financial problems on your financial and operational position?

[69] **Mr Owen:** In terms of managing the risks, as I mentioned earlier I basically have to make sure that I have some reserves in-year. That is the simple device that works. In terms of the current financial situation, I am probably old enough to remember the last time that we had a similar situation, which was in the late 1990s. The current situation is different, because the downturn in the housing market has been extremely rapid and has impacted extremely quickly on the timber processing sector that supplies timber for housing.

2.10 p.m.

[70] In response to that, we have a close working relationship with our business customers and we have adopted a constructive approach to responding to the situation in which they currently find themselves. For example, we have extended some contracts, we have diluted some high-value contracts with low-value contracts and we have ensured that people get paid promptly. We have also agreed to bring to market small quantities of timber on a monthly basis, rather than every three months, so that customers are able to respond to niche markets that may appear during this difficult time. In terms of the overall situation, at the end of the day, if the situation deteriorated beyond my forecast, which I think that I can deal with for next year, I have two choices: I can either close down significant areas of our social and environmental programmes and forest management, or I could return to the Welsh Assembly Government and ask it for support. Those are the two options available to me.

[71] **Eleanor Burnham:** My next question is to Huw Brodie. This is, effectively, the Welsh Assembly Government's short-term approach in dealing with an organisation that is problematic enough, I imagine, but with a long-term business cycle. Does the Welsh Assembly Government acknowledge the need to review the current funding arrangements? Will you be able to respond to Trefor Owen's call? If so, what plans are in place for that, particularly in view of the fact that he is unable to hold the reserves that he would obviously prefer to hold?

[72] **Mr Brodie:** I think that the way in which the report has documented the problems of the current funding arrangement is extremely helpful. That goes back to what I said in response to a previous question, that, in terms of the development of the strategy and how we are able to find a way of taking the strategy forward, the funding issue is central. It is an integral part of that process for us to work through these issues. I am unable to say precisely how the Welsh Assembly Government will respond, because that will critically depend on discussions with our finance colleagues, who set the framework, but the way in which the report has exposed these issues is extremely helpful to that process.

[73] **Eleanor Burnham:** You may have answered my final question. Will you be applying some pressure so that the Welsh Assembly Government provides the capacity support to your colleague, particularly in managing the risks associated with timber prices and in this financial climate?

[74] **Mr Brodie:** On managing the immediate issues, we will just have to work through them. I am not in a position today to say that we will suddenly bring x million pounds in to sort out whatever may happen over the coming year. I totally agree with your fundamental point. This session underlines that, if we want the Forestry Commission to be able to deliver in a coherent way across the whole social, economic and environmental objectives, part of the answer to that, at least, is tackling these issues about the funding mechanism.

[75] **Darren Millar:** On wood prices, what impact is the demand for wood as an energy crop putting on prices in the industry? I was under the impression that the massively increasing demand on that front was almost mitigating the falling demand on the construction-sector side, and that, even though we are in difficult economic times, the

continued promotion of renewable energy would still put you in a relatively buoyant situation in terms of your income from wood sales.

[76] **Mr Owen:** The current situation is that the wood-based renewable energy market in Wales is still very much in its infancy, and still developing. However, it is moving in the right direction—it is increasing. To give you some idea of scale, of the 770,000 cu m of timber that I sell each year, only about 60,000 cu m goes directly into energy. There is a different mix in the private sector, but our focus at the moment is to try to support the renewable energy market in wood. It is an area that has room to grow, but that brings with it elements of competition with traditional customers. From my perspective, that can only be healthy.

[77] **Bethan Jenkins:** Paragraphs 2.31 and 2.36 show that Forestry Commission Wales needs to improve its corporate asset management. The report indicates that there is no strategy, and no medium-term costed capital programme, but we have heard that the timber side of your work is quite reliable. My question to Trefor Owen is this: in light of the auditor general's findings, does your approach to capital planning and asset management offer good value for money? How might it be improved?

[78] **Mr Owen:** In the past, we have been restricted by the stop/start capital situation. That has almost been used as an excuse not to plan. I do not take that view. I have commissioned a piece of work to develop an asset management strategy for the built estate on land managed by the Forestry Commission in Wales. The built assets are valued at over £6 million, and as an accounting officer, it is incumbent on me to ensure that those assets are fit for purpose, if required, or properly disposed of, if not required. We also need to ensure that, alongside those requirements, we have a plan for capital investment and maintenance. That is what the asset management plan will do.

[79] **Bethan Jenkins:** When will that be finalised?

[80] **Mr Owen:** It will be available in 2009, but the work has already started.

[81] **Bethan Jenkins:** Do you believe that, when the work is completed, you will be able to look for new funding streams as a result?

[82] **Mr Owen:** If there are surplus assets, there is an opportunity for them to be disposed of, and for the receipts to be reinvested elsewhere. That can help to ensure that our built estate is in the right place, fit for purpose, well-maintained and safe and welcoming for staff and members of the public.

[83] **Bethan Jenkins:** I have a follow-up question for Huw Brodie on this issue. How do you see the Forestry Commission Wales estate developing in the long term? I know that you have touched on that in the light of the new work that you are doing, but do you have anything to add?

[84] **Mr Brodie:** Apart from welcoming the work that Trefor is already doing, this comes back to the fundamental nature of the strategy process that we are going through. Again, it is sensible for the report to say that we need to check that we have the right estate in the right places for the right strategic reasons. That is something that we very much want to feed into our process about going forward.

[85] **Janice Gregory:** You will know that, when the auditor general set up the website to enable people to make submissions for this report, 19 of the 28 submissions made suggestions. This was touched on earlier, and part of my question was answered, but I am interested in those suggestions. It may be that they referred to historic problems and issues, but I am just curious as to how you will maintain a good relationship with the people to whom

you need to sell your product, while bearing in mind that you have a responsibility to your own or other stakeholders.

2.20 p.m.

[86] You are in a competitive market. I do not know how critical the submissions were, to be honest, but they made certain suggestions to you, and I am interested in how you are going to balance that.

[87] **Mr Owen:** We are an organisation that trades, but we also deliver a lot of other, non-market benefits too, and that is the challenge in running the organisation. I often say to people that the only reason why we are able to deliver our social and environmental benefits is that we have woodlands that are well managed, safe and welcoming and that depends upon the woodlands being thinned and harvested appropriately. Therefore, the sector that buys our timber, or your timber, is a critical component in underpinning sustainable forest management. It is not to be treated in isolation. Harvesting timber is an integral part of sustainable forest management. Nevertheless, we need to ensure that when we sell our timber, we get best value for it. In the last few years, we have been more explicit about what we will bring to market, because there are inevitably trade-offs between some of the ever-changing social and environmental requirements and the perhaps more steady requirements of our timber customers. We have published a marketing plan that states quite clearly how much timber we will bring to market. We also have a very long-term production forecast that looks 20 years ahead. So, customers are well informed about the potential supply. If there are any changes, we will engage with those customers through our trade liaison arrangements and have mature discussions about those changes. The key message that I get back from our customers is that, if there are changes, they need to be gradual and they need to be communicated, and we need to stick to what we said we were going to do. Over the last few years, that has been very much the case. In fact, this year, they are going to fall down on their part of the bargain, because they are not going to uplift the full 770,000 cu m of timber, because of the economic situation. So it works both ways.

[88] **Lorraine Barrett:** I am looking at paragraphs 2.47 to 2.55, which show that direct production has a significantly lower gross profit margin and significantly higher costs than standing sales do. We understand that you are not purely driven by profit maximisation and that you have to think about other factors, particularly maintaining the capacity to work those difficult areas of the forest estate that are not attractive to the standing sales bidders. However, it is also the case that timber income makes up a significant part of your overall income. Given that, could you tell us about the basis on which you decided to adopt a 50:50 split between direct production and standing sales?

[89] **Mr Owen:** In answering your previous question, I referred to our timber marketing strategy, which we produced probably about four years ago in consultation with the representative bodies of our customers. Different customers have different views, obviously, and we felt that it was important to ensure that particularly small customers, of which we have many in Wales, were not disadvantaged by our marketing strategy. Using our understanding of the market overall and the customer base, and having discussed it, having taken advice, and having looked at England and Scotland, we felt that, on balance, a roughly 50:50 split was appropriate at that time. We did not say that it would be 50:50—that would make it a hostage to fortune. So, we have adopted a flexible approach and, over the last four years, the balance has moved from about 45 to 55—it has moved from one to the other.

[90] My marketing team has the freedom to adjust the mix, to ensure that we are getting best value, because the market changes from time to time. However, something around 50:50 seems to work. It ensures that high-value parcels that are simple to work and are high revenue earners can be offered to the standing sales merchants. For the more difficult, complex

operations, where, if I transferred that risk to the private sector, it would return a lower income to me, it is best that we retain that risk through direct production. However, that mix is constantly under review.

[91] **Lorraine Barrett:** I was going to ask you about comparisons with other parts of the UK, but you have already mentioned that you have been looking at what happens in England and Scotland. What is the scope for you to increase sales? I understand that you sell more timber through standing sales; I presume that you are looking all the time to maximise that.

[92] **Mr Owen:** We are constantly looking to get the best overall return. Direct production and standing sales are just two methods of achieving that best return. As I said, it is not fixed at 50 per cent—we will adjust the mix, depending on market conditions and localities.

[93] **Eleanor Burnham:** You obviously have a difficult balancing act to achieve. Page 51 and paragraph 2.56 on page 50 refer to staffing levels, which I am sure you know better than anyone have fallen in Wales, compared with your Scottish and English counterparts. There is staff concern about the workforce capacity, as mentioned in paragraph 2.58. To put it bluntly, Mr Owen, is Forestry Commission Wales spread too thinly? Given the impact of financial resources on staffing levels, what are you doing to meet these challenges, to increase income, perhaps by developing other businesses and opportunities or altering the skill mix, which you referred to, from how you currently work?

[94] **Mr Owen:** Staff numbers have reduced in Wales over the past few years for two reasons. First, some staff have left because their contracts ended when some of the structural funds management projects came to an end; I referred to that earlier when I mentioned Cydcoed and the wood energy business scheme. Therefore, that is a natural change. Secondly, we have not been able in recent years to fill all of our vacancies. Our direct running costs reflect our settlement, which is flatlined for the current three years, which means that we have to absorb inflation. We adopt a similar approach to other Welsh Assembly Government departments in trying to keep our running costs within the budgets that we are awarded.

[95] Having said that, I have worked hard with colleagues to put in place a staffing action plan for Wales. That has identified all of the key posts that we require to run the business for the future. We have been able to win some limited efficiencies out of our settlement, to redirect posts to where they are now needed. Therefore, in terms of being able to run the current business, I am satisfied, after reviewing our staffing capacity and capabilities, that we have sufficient staff to run things as they stand. However, my fundamental point is that, if we are required to take on additional responsibilities—or if there are significant changes to some of the existing responsibilities—I do not have the capacity, and possibly some of the capability, to respond to that within the current settlement.

[96] In terms of increasing income to try to cover some of the requirements to which you referred, the windfarm programme that I manage is fully funded from the receipts that we take in from that. There is a team of seven people that I have been able to fund directly from that set of contracts. That has not come from my baseline. So, we are already practising what I am beginning to preach, which is that we will not take on additional work without additional staff requirements being covered by a proper budget.

2.30 p.m.

[97] **Eleanor Burnham:** I have a question for Huw Brodie. Why should the committee not conclude that the Welsh Assembly Government is just asking Forestry Commission Wales to deliver more with insufficient resources? How can you assure us that you are providing FCW with sufficient resources to deliver what is expected of it?

[98] **Mr Brodie:** Trefor has just said that his assessment is that he has satisfactory numbers of staff and capabilities to deal with what the Forestry Commission is currently expected to do. There will be hard choices and it will become increasingly difficult in the current climate for Ministers to wrestle with the strategy. If we want the Forestry Commission to deliver more, we will have to work the financial conundrum, as I referred to earlier.

[99] **Eleanor Burnham:** Is there no other source of income through European funding? I know that the structural funds that were referred to have come to an end, but are there no other programmes that can be used creatively?

[100] **Mr Brodie:** Forestry Commission Wales, as it has shown in the past, is adept at playing the European funding game creatively in support of ministerial objectives. Trefor can say more about that. We are also, for example, very heavily involved in discussing with colleagues ways in which the strategic capital investment fund might be applied, particularly to some of the wood energy aspects of the work.

[101] **Mr Owen:** Huw has already touched upon the successor scheme to the wood energy business scheme that we have put in place. As I said earlier, we have learned a lot from the Objective 1 projects. Some of these projects were not fully covered with staff resources, and we had to use baseline resources to ensure that the Objective 1 projects were properly delivered. We have learned a great deal from that exercise. Since then, we have put in place clear and firm business rules that any additional programmes or projects that we elect to bid for must contain full funding to cover all staff resources associated with those particular projects. Huw has mentioned the wood energy business scheme, which is one scheme for which we have a number of bids. I can assure the committee that every post required to run that programme will be funded from those bids if they are successful. We also have some smaller European-funded projects that we have bid for. Again, I am assured that all of the bids have the staff element covered.

[102] We have also been a lot smarter recently and more strategic in relation to the bids that we look at. A few years ago, the organisation chased a number of bids because they appeared to provide many opportunities. However, that enthusiasm stretched the organisation to a point where it hurt. We have learned from that and we are certainly now a lot more strategic and more choosy in aligning bids for additional work with Welsh Assembly Government priorities.

[103] **David Melding:** I have the final question, which, initially, is for Mr Owen. The auditor general comments that you need to improve both your internal and external communications. That is, very importantly, to ensure that all of your staff have a clear understanding of the organisation's priorities and their place in delivering that, but also your external communications need to be improved to your external stakeholders, who are now coping with rather different market mechanisms and have different expectations. Can you indicate what is in course and what further action might be taken?

[104] **Mr Owen:** I will refer again to the review of the woodland strategy, as that is the starting point for key messages for the future. We are developing a communications plan alongside the woodland strategy review. That, in turn, will address the major requirements to communicate externally and internally.

[105] The corporate plan, which I mentioned earlier and which follows on from the woodland strategy review, also has a communication plan associated with it. That plan will be used to communicate externally the Forestry Commission's response to the woodland strategy in a very clear way and will also communicate exactly the same messages within the organisation in terms of its priorities.

[106] We have started to take practical steps to improve the structure of communication in the organisation. We already have a communications strategy for the organisation, which will be updated in light of what I have just said. We have also created a communications forum in the organisation on which we have asked key opinion formers at middle management level in particular to work with our communications team to identify key practical things we can do to ensure effective communication in the organisation. We have already taken some simple steps such as producing a staff newsletter six times a year instead of periodically. We now publish the decisions of the management board within 48 hours. Those are simple examples of some of the practical ideas that my team have come up with to improve communication within the organisation.

[107] **David Melding:** Communication in terms of change management is essential. What will the Welsh Assembly Government do to ensure that this important area is addressed by the Forestry Commission?

[108] **Mr Brodie:** As you say, Chair, those commercial stakeholders—as illustrated in the responses referred to here—essentially feel threatened by the change process. Trefor and his whole senior team have made face-to-face discussion with those people a big priority. That is clearly important. So far, the sense I get is that those channels of communication are quite strong. That does not mean that there is not some potential disquiet among some of the timber processors about whether there will still be enough Sitka spruce in 30 years' time. However, those channels of communication are good, and I am sure that Trefor and his team will continue to put a lot of emphasis on ensuring that, whatever process of change Ministers determine, it is well communicated, everyone understands that the change will be gradual—as it always is in this business—and the context is understood.

[109] Internal communication is equally important. This is clearly a classic process of management of change inside the organisation. The report illustrates that staff are searching for clarity on their roles and there are those who wish that life were simple and that all they had to do was plant and harvest trees. However, we live in a world where, for the public pound, we have to achieve joined-up outcomes across the whole range of social, economic and environmental objectives. So, there is an issue there. I am sure that Trefor and his team, through some of the mechanisms that he mentioned, will be able to address those.

[110] **David Melding:** I think that that concludes the questions for this afternoon. I thank the witnesses for their contributions, which have helped us to gather the evidence that we need to make our report to the Welsh Assembly Government. You will receive a copy of the transcript in case there are any transcription errors. That is obviously not an opportunity for you to change what you said but, if genuine errors have been made, you will be able to correct them at that stage. I thank you again for your attendance this afternoon.

2.40 p.m.

[111] Before I propose a motion under the relevant Standing Order to take us into private session, Eleanor Burnham has a procedural point.

[112] **Eleanor Burnham:** Sometimes, when we are all busily endeavouring to cover all aspects of the Welsh Assembly Government that we have to, we are taken aback when we hear an announcement by the Wales Audit Office in respect of whatever report it is issuing to the press. We might be helped along the way if we had some kind of table to remind us what reports are in the process of being put into the public domain. I thought that that would be quite helpful. I do not know whether I am the only one who does not always remember which report we are looking at next, but I think that it would be very helpful. I wondered whether I could make that request.

[113] **David Melding:** Jeremy, could you respond on that?

[114] **Mr Colman:** Certainly. First, I would like to explain that I operate under a variety of legal powers, several of which enable me to produce reports. The report that has prompted the question is one that I issued on the corporate governance of Denbighshire County Council. That report was undertaken not under the Public Audit (Wales) Act 2004, but section 10 of the Local Government Act 1999. It is not a report that is laid before the Assembly; it is a report to Denbighshire County Council. You might think that it is rather curious, but it happens to be true that the law does not require me to publish such reports; I am empowered to publish them and, on this occasion, I decided to publish it. So, it is not a report that would be destined for this committee in any way.

[115] Nevertheless, I quite appreciate that members of the committee are associated in the public mind with the audit function, and if reports go out in my name with the word 'audit' all over them you could very well be asked about reports that are not destined for you—which is no reason why you should not know about them. We produce a publication schedule, and it would be a very simple matter for me to circulate that electronically to members of this committee.

[116] **David Melding:** That is very helpful, Jeremy. Thank you for being so responsive. I realise that I have missed out item 3, so let us return to that before we go to private session.

2.42 p.m.

**Ystyried ymateb Llywodraeth Cynulliad Cymru i adroddiad y
Pwyllgor Archwilio 'Tir Gofal'
Consideration of the Welsh Assembly Government's response to the Audit
Committee report 'Tir Gofal'**

[117] **David Melding:** On the consideration of the Welsh Assembly Government's response to our report on Tir Gofal, Jeremy, do you have anything to add to what you said in the letter that you have written to us?

[118] **Mr Colman:** No, I do not think so. The letter is slightly longer than usual, but it is a very satisfactory response. In my opinion, there are matters for us to keep under review and we will indeed do so.

[119] **David Melding:** Are Members content for us to follow up on that in due course, as Jeremy suggests? I see that you are.

2.43 p.m.

**Cynnig Trefniadol
Procedural Motion**

[120] **David Melding:** I propose that

the committee resolves to exclude the public from the remainder of the meeting in accordance with Standing Order No. 10.37(vi).

[121] I do not see any objection.

*Derbyniwyd y cynnig.
Motion carried.*

Daeth rhan gyhoeddus y cyfarfod i ben am 2.43 p.m.
The public part of the meeting ended at 2.43 p.m.

Annex B



Llywodraeth Cynulliad Cymru
Welsh Assembly Government

David Melding AM
Chair, Audit Committee
National Assembly for Wales
Cardiff Bay
CARDIFF
CF99 1NA

Adran Amgylchedd, Cynaliadwyedd a Thai
Department for Environment, Sustainability and Housing

Dyddiad . Date: 2 February, 2009

Dear David,

AUDIT COMMITTEE : RENEWABLE ENERGY TARGETS

I am writing following Huw Brodie's letter of 10 December in which he advised that I would respond to you in full following your request for a note on plans to meet TAN 8 targets. Your request followed a question raised by Chris Franks at the meeting of the Audit Committee on 27 November 2008.

The attached note for the committee provides information about the Assembly Government's renewable energy strategy, which encompasses TAN 8 targets.

Yours sincerely

Matthew Quinn
Director for Environment, Sustainability and Housing

Parc Cathays
Caerdydd
CF10 3NQ

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BUDDSODDWR MEWN POBL
INVESTOR IN PEOPLE

NOTE ON WELSH ASSEMBLY GOVERNMENT RENEWABLE ENERGY TARGETS FOR THE AUDIT COMMITTEE

1. This note is in response to a question addressed to Hugh Brodie by Chris Franks at the Committee meeting on 27 November 2008 about the operations of the Forestry Commission Wales. As the question concerned renewable energy targets, Hugh Brodie advised that it would be most appropriate for Matthew Quinn to respond in his capacity as head of the Department for Environment, Sustainability and Housing.
2. In the fight against climate change, Wales should be in the forefront of the transition to a low-carbon economy. To that end, the Assembly Government believes that with sufficient innovation and investment, the right Government framework and public support within 20 years Wales can generate as much electricity from renewable sources as it consumes. Following the publication of our Renewable Energy Route Map in 2008, we are focusing on how we might exploit Wales' exceptional renewable energy resources.
3. Investment in proposed and consented renewable energy projects in Wales, mainly on and off shore wind, would total approximately £8.5 Billion. At present wind energy is the most commercially viable renewable technology available. Currently some 360MW of on-shore wind energy is operational in Wales, with 60MW of off-shore wind development at North Hoyle and a further 100mw of off-shore wind development currently under construction at Rhyl Flats. The second largest offshore windfarm in the world, 750MW at Gwynt y Mor, received consent in December 2008. In addition 150MW of hydro is operational in Wales. In total there is around 570MW of operational renewable energy, from on and off-shore wind and hydro.
4. The Route Map gives our current best estimate of the practicable heat and electricity generation outputs which can be achieved by 2025. We believe Wales could produce 33TWhr per year of electricity from renewable technologies by 2025 – with about a half of this from marine, a third from wind and the rest mainly from sustainable biomass. Compared to energy generation using fossil fuels, we estimate that achieving the renewable energy aspirations in the Route Map would save some 4 million tonne of carbon emissions each year.
5. The Welsh Assembly Government's planning policies for renewable energy is contained in the Ministerial Interim Planning Policy Statement 01/2005 and Technical Advice Note 8 (TAN 8) which were published in 2005. TAN 8 establishes a target of 800MW of installed capacity, by 2010 for onshore wind development in the 7 Strategic Search Areas which the TAN identifies as being most suitable areas for large-scale onshore wind development. Monitoring the progress towards target is undertaken annually.
6. Several of the TAN 8 strategic search areas will require the construction of major new grid connections. National Grid is proposing to adopt a "strategic investment" policy, the objective of which will allow them to build certain new transmission capacity ahead of clearly signalled user demand. NG has discussed four possible UK areas for this with Ofgem including strategic investment into mid Wales.
7. The Assembly Government is investing considerably in background studies, in the form of a Marine Strategic Framework, to improve our understanding of the marine energy resource around Wales, and its potential for exploitation within a sustainable development framework. It is our intention that this work will enable us to more accurately determine Wales' optimum and sustainable marine energy targets. Although wave and tidal technologies are still currently very much in their early stages of development in Wales, considerable progress is being made at research and demonstration stage.

8. The huge, renewable resource of the Severn Estuary tides provides a potential means of generating up to 5% of the UK's electricity needs. It can contribute to meeting the UK's renewable energy targets and the progressive decarbonisation of our electricity supply. A proposed shortlist of schemes to generate clean, green electricity from the Severn estuary was unveiled on 26 January. The shortlist comprises a mixture of barrages and lagoon schemes. A three month consultation on the process adopted to arrive at the short listed schemes, and on the scope of a proposed Strategic Environmental Assessment, was also launched on 26 January. In addition to the shortlist it is recognised that other, less developed, schemes for capturing tidal energy could have potential in the longer term. The Welsh Assembly Government, Defra and SW RDA have, therefore, established a fund of £0.5M to further explore the potential of some innovative technologies.
9. Following on from the Renewables Energy Route Map as part of the process leading up to the publication of an overarching Wales energy strategy this autumn, we have developed a more detailed Bioenergy Action Plan. This aims to:
- significantly reduce greenhouse gases emissions;
 - contribute to long-term fuel security;
 - ensure that the public sector leads by example;
 - encourage the development of sustainable forestry and agriculture; and
 - support business development and job creation in all parts of the biomass energy supply chain.
- The Action Plan will be published for consultation this month.
A significant initial contribution to the Assembly Government's aspirations for bioenergy will be provided by a 350MW biomass plant which has been consented at Port Talbot. This will be the largest biomass generating station in the world.
10. The Route Map consultation responses will inform the development of the Welsh Assembly Government overarching strategy that covers energy issues. This strategy will outline the contribution expected from a range of sources of renewable energy for the period beyond 2010 as well as setting out wider energy issues concerning energy efficiency. Once the strategy has been established, TAN 8 will be reviewed revising upwards the targets for renewable energy supplied by a range of sources.

February 2009