

FORESTRY COMMISSION DEPARTMENTAL INVESTMENT STRATEGY GB core activities and England

December 2002

Section 1: SUMMARY

1.1 Investment is made to advance Government forestry policy in England and for the Forestry Commission's (FC's) GB activities; both being funded by the Westminster Parliament.

1.2 The GB objective of the Forestry Commission is:

'On behalf of all 3 administrations, to take the lead in development and promotion of sustainable forest management and to support its achievement nationally'

1.3 Sustainable management of forests generates multiple social, environmental and economic benefits. Since all the benefits are generated to a greater or lesser extent by the same woodlands, these have to be reconciled with each other through long term planning and positive management to achieve an appropriate balance. The achievement of a reasonable balance is a statutory duty for the FC. It is guided in this by the UK Forestry Standard, which is the Government's approach to sustainable forestry, setting out how the UK will meet its international commitments.

1.4 The objectives for the Forestry Commission in England are expressed in the forestry strategy for England – ["A New Focus for England's Woodlands"](#) which the Government published in December 1998. It is founded on 4 principles: **quality, integration, partnership and public support**, which will guide our work on implementation. The Strategy identifies 4 interrelated programmes, in keeping with the Government's wider policy aims:

- *Forestry for rural development*
- *Forestry for economic regeneration*
- *Forestry for recreation, access and tourism*
- *Forestry for the environment and conservation*

1.5 These programmes are achieved by investment on behalf of the nation in new and existing woodlands either managed directly by the FC or owned and managed by others in the private and public sectors. Much of FC's activity relates to the capital investment in publicly owned forests which make a significant contribution to the delivery of FC objectives. These public assets generate non-market benefits such as the conservation of biodiversity and the enhancement of the landscape. The Government has decided to retain the FC

woodlands in public ownership. Indeed, “*A New Focus for England’s Woodlands*” envisages an enhanced role for FE in meeting the FC’s objectives in England. The costs of these activities are partly met from revenue from the sale of timber and other business activities by Forest Enterprise (FE), the agency which manages the FC estate.

1.6 The Government is committed to opening up access to the countryside. It is Government policy that access to the FC estate on foot or bicycle is available free to all although activities such as sporting events carry a charge. Ministers have asked the Forestry Commission, as the largest single owner of woodland, to dedicate, under the Countryside and Rights of Way (CROW) Act, all its freehold woodland estate for access in perpetuity by 2005. Funding is now being sought to take this forward.

1.7 The FC supports investment in other woodlands to secure multiple public benefits by providing incentives to owners to expand and improve their woodlands. Using regulatory powers, the FC controls the felling of trees and ensures that replanting takes place after harvesting, thus safeguarding the public investment in private woodlands.

1.8 The investment strategy fully supports the public service targets expressed in the Service Delivery Agreement. The existing woodlands in which FC have invested (both on the FC estates and on land owned by others) will be used to deliver:

- a higher volume of sustainable timber production;
- more recreation opportunities:
 - ◆ to encourage up to 350 million day visits;
 - ◆ by providing public access to an extra 10,000 ha of woodland in priority areas;
- environmental benefits by improving SSSIs on the FC estate and by ensuring that woodlands are managed to enable the decline in the woodland bird population to be reversed

1.9 In addition, FC will invest in the creation of 15,000 ha of new woodlands to provide sustainable benefits in the future both on the FC estate and on land owned by others. Of that total, 2,700 ha will improve the environment of disadvantaged urban communities and help attract investment to them.

1.10 The investment plans recorded in the DIS prepared for SR2000 were to improve the infrastructure of its Forest Holidays business and to create community forests on brownfield sites. Both projects were funded by the Capital Modernisation Fund. Progress in the Forest Holidays project is recorded at 2.13. The other Capital Modernisation Fund project was the creation of new woodlands in the Thames Chase, Mersey and Red Rose Community Forests. By March 2002, 1023 ha had been acquired against an original target of 1000ha and 140 ha of woodlands established. The target for footpaths has been increased to 46km from 40km of which 8km created by that date.

1.11 Progress against SR2000 DIS investment plan is shown in Table 1

Table 1: Total capital allocation SR2000

	£,000					
	2001-02		2002-03		2003-04	
	Plan	Actual	Plan	Estimate	Plan	Estimate
GB Core Activities and England Forest Strategy	2,695	1,940	2,717	2,790	2,740	2,790
Capital Modernisation Fund	4,700	6,733 ¹	-	7,000 ²	-	3,000 ²
Invest to Save Budget	-	-	-	60 ³	-	30 ³
Total	7,395	8,673	2,717	9,850	2,740	5,820

¹ Includes £2,033,000 carried forward as end of year flexibility.

² This is additional funding for the refurbishment of the cabin sites.

³ This is in the capital element of the successful Invest to Save Budget bid for the enhancement of the Woodland Grant Scheme computer system.

1.12 As a result of Spending Review 2002, the Forestry Commission plans to invest the capital shown in **Table 2** during the review period.

Table 2: Total investment by objective: 2003-04 to 2005-06

Objective breakdown £'000s	Baseline	Proposed	
	2003-04	2004-05	2005-06
GB Core Activities	750	750	750
England Forestry Strategy	2040	2040	2040
Total	2790	2790	2790

Section 2: CURRENT ASSET BASE

Scale of the current asset base

The Forestry Commission Estate

2.1 The forest estate in England has 207,000 hectares of woodlands and 51,000 hectares of other habitats. The woodlands generate economic, environmental and social benefits. The economic benefits come directly from income produced by the sale of timber and other products and services and indirectly into the local economy from, for example, tourists coming to use mountain bike routes.

2.2 Income from timber and other products and services currently generates about 70% of the cash cost of maintaining the estate and supporting the recreational, environmental and heritage outputs. The decline of world timber prices since 1997 which has hit the FC hard due to the relative strength of sterling, to their current unprecedentedly low level, leaves a shortfall of £14 million per annum. If the timber market recovers the resultant surplus could be used to improve access to and enhance biodiversity on the FC estate.

2.3 In 1997, the Government halted the large-scale disposal of forest land in accordance with its manifesto commitment to safeguard public access and terminate the previous policy of large-scale forest sales. The 1998 Comprehensive Spending Review settlement confirmed this. The introduction of private capital through the sale of cutting rights has been examined but at present there are legal and value for money difficulties. However, the Commission constantly reviews its holdings to identify and dispose of any assets which no longer contribute enough to objectives to warrant continued investment.

Forest Holidays

2.4 The Forestry Commission runs forest cabins and caravan and camping sites as a separate business unit, *Forest Holidays*. This activity developed from a desire to protect the forests from damage caused by 'wild camping' whilst encouraging the public to make use of their forests for recreation. It has become a quality holiday experience with high occupancy rates and a loyal customer base. In England, there are 2 cabin sites and 17 caravan and camping sites.

Buildings

2.5 The FC rents or leases buildings wherever suitable property can be acquired without capital investment. However, there is sometimes no alternative to ownership in remoter areas where much of the Commission's activities are located or where specialised buildings such as deer larders and workshops are needed.

Vehicles and Equipment

2.6 The Commission operates a large fleet of machines and vehicles. These are acquired through a mixture of purchase and lease reflecting best value for money at time of acquisition. An externally validated study was carried out on light vehicles during 2001 into the value for money delivered by the internal service provider. This benchmarked the cost of current provision against external providers and concluded that the internal provider continued to be the most effective way of providing light vehicles to the Forestry Commission.

IT assets

2.7 The Commission owns office and IT equipment necessary to support all of its activities except its computer communications network where it has been cost effective to purchase two managed services viz the wide area network and internet access/external e-mail. The investment by the service providers in the infrastructure saves the Commission an estimated £2 million of capital spend. This has removed the risk of an investment which becomes rapidly obsolete through changes in technology or lack of capacity. It has also provided resilience not available in separately owned networks as the service

providers can absorb failures within a much larger communications infrastructure. This approach of avoiding investment in obsolescence whilst providing a better service and saving capital spend will be used to improve value for money for other services as opportunities arise.

Third Party Assets

Partnerships with other woodland owners

2.8 Investment in other woodlands through the payment of grants will be included in current expenditure in the SR2002 settlement. Since the Commission has no ownership rights in the assets created, these do not appear in the Commission's Balance Sheet.

2.9 The Commission enters into diverse types of partnerships with landowners and other stakeholders to create new woodlands to expand England's woodlands within the England Rural Development Plan. By investing £8 million in 2003-04, 2004-05 and 2005-06 to create approximately 5000 ha of other woodlands each year, private investment is levered in to help meet the FC objective to increase the woodland cover. In each of these years, the Commission also provides another £8m of incentives to owners to improve and manage their woodlands in ways that generate the outputs required meeting its other objectives. The Commission ensures sustainable forest management by applying the UK Forestry Standard to all new planting and woodland improvement.

2.10 The level of investment in woodlands is driven by both the level of incentive offered and external factors affecting the owners' decisions to invest. Incentives are justified by economic evaluation of the public benefits which are sought, where the information exists to do so. Within this context, incentives are set at levels which reflect the cost of purchasing the desired public benefits in the market place. Although the woodland owners may receive financial benefit from this investment in due course, there is a general presumption that the land remains in forestry, and thus delivering wider social and environmental benefits, in perpetuity. Importantly, the investment also provides support for the wider countryside through the economic activity it generates – both directly through forestry planting and felling and indirectly for instance in the tourism industry.

Harvesting

2.11 Specialist equipment is required to harvest and move timber. In FE, investment in capital equipment to harvest timber has been reduced by moving to standing sales or by using harvesting contractors. In standing sales the purchaser has to take the risks involved in timber trading as well as either investing in machinery or employing a contractor who has his own equipment. Harvesting contractors, who may work for standing sales merchants or directly for FE, have to buy their own equipment and accept the risk of finding sufficient work from both the public and private sectors to make their investment viable. If this work were to be done entirely using FE

resources, it would require an additional investment of £40 million in harvesting machinery. FE does however, retain an in house capacity in locations where that is the most cost effective solution; this allows effective benchmarking with other suppliers.

Condition of the assets

2.12 The FC estate has been certified since 1999 under the United Kingdom Woodland Assurance Scheme (UKWAS) as sustainably managed. UKWAS provides independent verification of sound environmental management analogous to ISO 14001. On-going independent surveillance required as part of continued certification confirms that the forest estate remains sustainably managed.

2.13 There has been no capital to invest in the *Forest Holidays* business for a number of years with consequent deterioration of facilities and income is declining due to the competition from better quality accommodation and facilities. One cabin site has been refurbished using money from the Capital Modernisation Fund. The other is current being refurbished and will re-open in early summer 2003. Further investment plans are given at para 2.16.

2.14 Within the funding constraints, the FC has managed to keep the buildings it owns in a reasonable state of repair. Professional staff are employed or retained on contract to safeguard the investment in property.

Asset Utilisation

Better use of current assets

2.15 The Commission has run a commercial style accounting system for nearly 30 years. To encourage good asset use, cost centre managers are responsible for the safekeeping of all their assets and the costs associated with ownership including both the depreciation and the cost of capital. Central service providers charge internal customers for the use of assets through Service Level Agreements to ensure that end users are aware of the full cost of using the assets. The business planning and budgeting processes not only accommodate both direct cost of assets and the indirect cost of assets through charges but also allow the cost of new investments to be included and the cost of maintaining them in forward years to be covered.

Wider Markets

2.16 Private partners were sought to develop the cabins business by investing in the improvement and expansion of the facilities. Partners were also sought for the development of the caravan and camping sites. The Commission would have received rental income plus a share of the profits and avoid the risks associated with such an investment. Despite strenuous attempts, legal difficulties prevented a deal from being concluded with the partner identified to participate in the cabins refurbishment and expansion. Application was successfully made to the Capital Modernisation Fund for

£10 million to refurbish the existing cabin sites. Discussions are under way with Partnerships UK to take forward the development of the caravan and camping sites and new cabin sites.

2.17 The Forestry Commission also has visitor centres at many popular locations on the FC estate. Partners are being sought to develop them by maximising their commercial potential whilst continuing to be a resource for the public seeking information about all aspects of woodlands and recreational opportunities.

2.18 The Commission also derives income by charging for use of its assets where possible. These charges are from diverse sources such as renting buildings which cannot be sold; exploiting mineral assets on the estate, charging for activities such as fishing, stalking, riding, car rallies, orienteering and collecting wayleaves for siting pylons and radio masts. Intellectual property is also exploited where practicable: for instance, the Commission has an agreement with the supplier of its geographic information systems for the company to market the current specialist modules for forestry, which were jointly developed for FE's use (see - <http://www.esriuk.com/products/Ukproducts.asp?pid13>).

Resource Accounting and Budgeting Consequences

2.19 Depreciation and interest on capital will be charged on a modified historic cost basis. The capital charges for the existing asset portfolio is shown at **Table 3**.

Table 3: Cost of capital and depreciation: 2003-04 to 2005-06

Capital Charges (£'000s)	2003-04	2004-05	2005-06
Cost of capital charge			
-departmental assets	690	690	690
-public corporations: FE	34,600	34,600	34,600
total cost capital	35,290	35,290	35,290
Depreciation			
-departmental assets	1,070	1,070	1,070
-public corporations: FE	2,653	2,653	2,653
total cost of depreciation	3,723	3,723	3,723
Total capital charges	39,013	39,013	39,013

SECTION 3: Asset Disposal Strategy

The Forestry Commission

3.1 Mr Elliot Morley, the Forestry Minister announced the current disposal policy in a written answer:

'We have stopped large scale sales of forest land by the Forestry Commission. Our policy is that the Commission may only sell agricultural land, land associated with houses and other buildings, unplantable land and relatively small and isolated blocks of forest land which do not make a significant contribution to its objectives and which are surplus to its requirements. The Commission may also sell areas for development where this is in the public interest. Areas of forest land which are important for public access will not be sold unless an access agreement is in place.'

The Official Report, Column: 527W, 7 Dec 1999

3.2 There will continue to be a small programme of outright disposal to support FC expenditure and to reposition the estate to reflect current objectives. The land and buildings assets are regularly reviewed to identify opportunities for outright disposal, although these opportunities are much more limited than in the past because most of the property meeting the disposals policy has already been sold. Remaining property sales are planned to raise £1.6 million in each year of the Spending Review period. Sales of land for development are also being pursued and are planned to raise approximately £3.5 million by 2005/06.

3.3 In line with a recommendation of the quinquennial review of Forest Enterprise, Ministers have agreed to consider, case by case, proposals by the Commission to sell land providing a low level of public benefits and use the income to purchase areas where public ownership and management will help meet the policy priorities. This will result in a net increase in public benefits and, while there may be a net reduction in the public forest area (as the land to be purchased will be nearer centres of population and may be more expensive per hectare), the value of the estate is unlikely to change significantly.

Other assets

3.4 Machinery and equipment are also revalued and reviewed by cost centre managers as part of the financial control system; the cost of ownership is charged to cost centres through depreciation and capital charges. Where such assets are identified in the planning process as surplus, they are sold. Vehicles, machinery and equipment have a planned operational life based on the increasing cost of ownership over time and movements in technology. The asset is depreciated within the accounting system based on this life. When the asset is approaching the end of its life, it is reviewed to determine whether the life should be shortened or increased. Assets deemed to have come to the end of their useful life are disposed of, by sale if possible.

3.5 The level of planned disposals is shown in **Table 4**.

Table 4: Planned disposal receipts: 2003-04 to 2005-06

£'000	NBV	Receipts at net realisable value		
		2003-04	2004-05	2005-06
Assets on departmental balance sheet	-	-	-	-
Public Corporation Assets: FE	8,100	2,700	2,700	2,700
Assets in third parties	-	-	-	-
Capital DEL Total		2,700	2,700	2,700
Reduction in cost of capital charge	480	160	160	160
Reduction in depreciation charge	-			
Resource DEL Total	480	160	160	160

Section 4: NEW INVESTMENT PLANS

4.1 The capital included in the SR2002 settlement will be allocated to the objectives as shown in **Table 5**.

Table 5: Total gross capital investment: 2003-004 to 2005-06¹

£'000	Objectives	£		
		2003-04 Baseline	2004-05 Baseline + plans	2005-06 Baseline + plans
Department's direct capital expenditure	GB Objective			
	Ongoing investment ¹	750	750	750
	England objectives			
	Ongoing investment ¹	40	40	40
Public corporation capital expenditure: FE	Ongoing investment ¹	2000	2000	2000
On balance sheet PFI				
	<i>Subtract asset disposals</i>	-2700	-2700	-2700
Sub total capital DEL		90	90	90
Capital beyond the boundary				
Off balance sheet PFI				
Total		90	90	90

¹ This does not include capital projects funded by the Capital Modernisation Fund or the Invest to Save Budget.

² Investment to maintain the core asset base by replacement of obsolete and exhausted items.

E- government

4.2 The Forestry Commission has plans for continued modest investment in information technology. This is required to meet the Governments targets for e-government and to maintain departmental efficiency. A successful bid to the Invest to Save Budget will allow the FC to spend £760k on the computer system which supports the Woodland Grant Scheme. This will allow public and business access to the woodland grant scheme to be electronically enabled.

Forest Holidays

4.3 The completion of the cabin site refurbishment is scheduled for 2003-04 when the final £3 million of CMF funding will be utilised .Our preferred option to develop the caravan and camping sites, as with all our projects, is to seek a public/private partnership. Legal issues are being resolved to allow this to proceed but the scale of the investment is not currently known.

4.4 The resource accounting implications of the new investment plans are given in **Table 6**.

Table 6: resource budget consequences 2003-04 to 2005-06

Capital Charges (£'000s)	2003-04	2004-05	2005-06
Cost of capital charge			
-departmental assets	690	690	690
-public corporations	34,600	34,600	34,600
total cost capital	35,290	35,290	35,290
Depreciation			
-departmental assets	1,070	1,070	1,070
-public corporations	2,653	2,653	2,653
total cost of depreciation	3,723	3,723	3,723
Total capital charges	39,013	39,013	39,013

Section 5: PROCEDURES AND SYSTEMS

Forestry Strategy

5.1 As mentioned above, the Government's England Forestry Strategy has been developed by a range of departments and agencies following extensive consultation with stakeholders. The strategy specifies how it will be monitored and announces the creation of the English Forestry Forum whose members individually and collectively work in partnership with the Forestry Commission to implement the strategy. The Forum which is now in place, is chaired by the Forestry Minister for England, Mr Elliot Morley.

Investment Strategy Development and Support

5.2 The Forestry Commission has a well-developed investment strategy which reflects years of practical application and evolution influenced by decisions on policy and priorities made by the Board of Commissioners supported by experts. It has also been scrutinised closely for many years by HM Treasury and National Audit Office value for money studies.

5.3 The implementation of the Commission's investment strategy is supported by years of experience. The option of buying a service based on the investment of others is always considered along side direct investment by FC. provided This experience is invested in staff, drawn from many professional disciplines, who are regarded as leaders in the field of forestry in GB and who operate as consultants at home and abroad. Supported by specialist external consultants when necessary, they have shown that they have the skills to manage the Government's investment in forestry.

Investment Appraisal and Evaluation

5.4 The Forestry Commission supports the appraisal and evaluation of the market and non-market benefits of forestry by adopting current best practice and by commissioning research where necessary. Current research includes valuing the social and environmental benefits of forests and a GB/UK multiplier study. Recently completed research includes the financial viability of forest industry businesses, economic impact and multiplier studies and scoping studies into forests' role in tourism and the non-market benefits of forestry. All reports are available on our website at:

<http://www.forestry.gov.uk/website/Oldsite.nsf/ByUnique/AHEN-4XTC2N>

5.5 A major new multi-attribute study commenced in 2000/01, with the aim of estimating a combined value for all the non-market benefits of forestry, instead of estimating separate values for recreation, environment, landscape and education as in previous research. The report for phase 1 (available on the website) considers possible methodologies, and includes literature reviews. Phase 2 is now being carried out in which a report for the separate aspects will be produced. These findings will be drawn together into a final report which should be available in early 2003

5.6 Project management methods are prescribed for certain types of investing activity such as information technology and capital building projects. Management responsibility is given to a senior manager who is held responsible for delivery of end products. The project outcomes are reported within the organisation. The senior manager responsible for the project is also responsible for the post implementation review. The Forestry Commission is a small organisation with a limited number of staff involved in particular activities. As a result, the experience from any investment activity is promulgated through the management chain, through formal networks and informally through the wide range of networks established by staff who have worked together in different locations. Planning the expected outcome from programmes controls other investing activities. These are measured by outcome and budget spend. Managers have responsibility for these tasks recorded in their personal job plans. The effectiveness of these project

management arrangements continues to be demonstrated by the delivery of IT and other projects (eg the community forests funded by the Capital Modernisation Fund).

Planning for sustainable forests

5.7 The level of investment in the public forests in the FC's care is driven by historical factors. Re-investment by replanting woodlands is determined by detailed forest design plans which determine the management required to meet the objectives for that forest. The investment in the infrastructure required to support the management of the estate is driven largely by the activity on the estate. Many decisions made in managing the estate are based on knowledge derived from research. The views of statutory consultees and other stakeholders are also taken into account. These decisions are monitored through research and survey work and the results are used to refine current practice.

5.8 The Forestry Commission's major investment is in the land and the growing trees. Each forest is covered by a hierarchy of plans which apply the UK Forestry Standard to the management of the public estate. The plans are underpinned by a comprehensive database which records details of the forest. Forest Design Plans are crucial to the management of the forest. They set out how the existing forest is to be managed, especially the shape and timing of felling coupes. By describing the proposed replanting, they give a vision of the future forest, as it will evolve over the next 50 to 100 years. For Forest Enterprise, they are the main way in which activities are given formal approval by the Forestry Commission and external stakeholder consultation is facilitated. A comprehensive GIS modelling system has been developed which allows all forest planners to assess the impact of their plans on the structure and function of the forest and thus its capacity to meet the desired objectives, both now and in the future.

Risk Management

5.9 In addition to the procedures for investment appraisal and project management, silvicultural standards are in place to reduce risks to the forest asset from natural phenomena such as fire, flood, wind and pests. These phenomena can offer a major threat to the asset. But, thanks to past and present research, their impact can be reduced and careful management can minimise the damage which they cause. A full risk management framework has been developed.