



Confor
Promoting forestry and wood
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Environment and Sustainability Committee

E&S(4)–06–12 paper 2

Inquiry into the Business Case for a Single Environmental Body – Evidence from Confederation of Forest Industries (Confor)

Confor: *promoting forestry and wood* is a membership organisation that promotes sustainable forestry and low-carbon businesses. Confor represents and supports members by helping build the market for wood and forest products, creating a supportive policy environment, and helping members to become more competitive and successful.

Confor examined the pros and cons of the Single Body proposal and concluded that, on balance, it will be detrimental to the interests of the forestry and wood-using sector. There is sense in bringing EAW and CCW together, but the role and functions of FCW are very different.

Loss of access to shared FC resources

FCW operates as an independent, fully devolved entity reporting to Welsh ministers, while benefiting from collaborative activity with England and Scotland, as well as Westminster-funded resources such as Forest Research (FR), statistics and forest expertise for standard setting.

If FCW were separated from the rest of FC, then it is near certain that the England and Scotland arms would merge with departments in their respective countries and shared functions would be significantly downgraded or lost in the near future. FR is widely respected within the sector. Statistics/production forecasting helps underpin investment in markets for wood and forest expertise is crucial in ensuring there is a standard for forest management that has a basis in sustainability.

This shared resource has played a crucial role in the fight against *Phytophthora ramorum*. Any merger process will be extended over time and result in staff resource being diverted, just at a time when we need it to be active and available.

Environmental regulation

Members occasionally complain about poor service from the FC, and the debacle over Glastir has not been an advert for competence. At the same time, FC staff have at least some understanding of forestry and the challenge of making that financially sustainable.

EAW and CCW are environmental regulators, and are used to limiting the negative environmental impact of industry rather than stimulating activity. They will dominate the new body and it will quickly become focused narrowly on environmental protection through regulation. In five years' time, instead of a woodland officer visiting a forest it will be an ex-CCW manager who is not interested in how to make any money out of the

Please reply to:

Confor: Hyrwyddo coedwigaeth a choed
Tan y Coed Canol, Ceunant Caernarfon, Gwynedd LL55 4RN
Tel: 01286 871 874 **Mob:** 07765 220 398
Email: kath.mcnulty@confor.org.uk



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forest.

By the time the new body realises that it is actually destroying the environmental benefits of well-managed woodland, it will be too late.

What we need is FCW taking control of the agenda and delivering a workable scheme, not spending the next few years being diverted by integration into a new body.

Damage to wood-using businesses

Businesses along the supply chain including agents, woodland managers and the mills have all expressed deep concern that the merger will undermine investment in wood processing. Views are mixed on the impact FCW has on timber prices, but it is clear that the merger will threaten investment, which in turn damages markets for wood.

Loss of influence by the forestry sector

Since devolution, forestry has increased its visibility at a political level. This is partly because forestry was fully devolved and the FCW were able to react to a Welsh agenda and partly because the private sector realised it needed to promote the role of forestry in a new green economy through a new representative body Confor.

If there is no department for forestry, and especially if it is submerged into an environmental regulator, the understanding of the importance of forestry will diminish significantly. There is a risk that EAW and CCW will dominate the SEB. Forestry and wood will be downgraded.

The business case for the merger fails to understand the nature of the sector or its interests. Any concerns which are noted are quickly skipped over and any potential financial costs are promptly forgotten. It is a 'best case' scenario that focuses on the benefits of merging EAW and CCW, with a narrow perspective that FCW is similar, which it is not.

Economics facts

- FC Wales (FCW) manages by far the largest single rural business in Wales.
- FCW with its visitor centres and mountain biking operates the largest commercial outdoor recreation business in Wales.
- The public forests are the largest single visitor destination in Wales after the Welsh coast, attracting about 80% of all visitors to woodlands.
- As a result of these services and commercial activities the public forests are of fundamental importance to rural tourism, which is either the top or 2nd largest economic sector in Wales. The facilities and opportunity for recreation represented by the forests are the platforms on which many touristic businesses are built.
- In addition the public forests produce timber, a renewable material that not only generates considerable income for the Welsh Government directly but also supports a large and modern wood processing sector that is competitive with the best in the world. The commercial capital that allowed this was made available

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Tel: 01286 871 874 **Mob:** 07765 220 398

Email: kath.mcNulty@confor.org.uk

Head Office 59 George Street
Edinburgh EH2 2JG

Tel: 0131 240 1410 **Fax:** 0131 240 1411
Email: mail@confor.org.uk

www.confor.org.uk
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because of long-term guarantees of supply by FCW, guarantees that are not available from the private sector.

The Business Case Analysis

A The strategic case

1. The SEB is to be set up primarily to implement the Natural Environment Framework (NEF). But the NEF, as currently proposed, has the following key weaknesses which undermine the case for the SEB.
 - its detailed roles have still to be defined and it therefore makes little sense to form a SEB to implement a yet undefined set of functions
 - its thinking is dominated by environmental considerations and it largely ignores economic and social drivers which are arguably much more significant for those managing and operating in the rural sector
 - it speaks repeatedly of an integrated approach and integrated delivery of the management of the natural environment without explaining what this means in practice
2. Many claims are made of the SEB's benefits (table 1) without providing convincing evidence of how these will be realised. They are all speculative.
3. Several references are made to external stakeholder consultation eg para 2.3, but it's unclear how far and how seriously these inputs were taken into account. The strong opposition by the forestry sector to including FCW in the merger seems to have been completely ignored.
4. Several claims are made that the SEB will strengthen the autonomy of decision making in Wales eg paras 2.12.2 and 2.13.2. In the case of forestry, FCW is already autonomous and the inclusion of forestry in these comments is disingenuous.
5. Expenditure outside Wales and reinvestment of savings in Wales para 2.13.2. FCW expenditure in Scotland and England is only a small % of the £23m. Forest Research already has a research station in Wales which focuses on research priorities for Wales. FCW also commissions studies concerned with Welsh questions. I suspect the points in these paragraphs relate primarily to the EA and it is wrong to imply they apply equally to FCW.
6. References are also made to the importance of partnerships for SEB and it is implied these need strengthening. para 2.6 FCW has well developed partnerships which play an integral part in delivering *Woodlands for Wales*.
7. The descriptions of the roles of the SEB focus on regulatory and planning functions. No mention is made of the benefits to SEB of commercial operations eg FCW timber production, recreation services and wind farm developments

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8. Farming and fishing, the largest rural industries, are the responsibility of a different WG ministry. How will a SEB improve regulatory control over these industries compared with the present situation?

B The economic case

The main problem with this section is that we are expected to take the figures on trust, not withstanding the peer review by Mr Reader. Although the review process is described it is impossible to understand how the estimates were derived and the annexes throw no further light on this. The following points raise serious questions about the conclusion that option 4 gives the best economic outcome.

1. Table 4 p 56 show non-cash realisable benefits but gives no explanation of what these are. They are not shown separately in annex 8.
2. Annex 8 shows benefit calculations for each option. The para headed "Limitations" hardly fills one with confidence that the figures are meaningful.
3. In option 4 the largest benefits (cost savings) come from row 2 "Operational-technical advice, strategy and guidance planning" and row 6 "Operational- field workforce including reserve, forest and asset management" (Cumulative savings of £64m out of a total of £158m) How do these arise eg in the case of FCW what cuts are envisaged and how will FCW programmes be delivered with progressively reduced expenditure on forest operations?
4. A comparison of benefits for options 2 (CCW+EA) and 4 (FCW+CCW+EA) in annex 8 show that almost half the increased benefits claimed for option 4 over option 2 over the project life (£17m out of £37m) arise in row 6 ie savings on field workforce operations. No details are given of where the savings originate (ie in CCW, EA, FCW) but as option 2 excludes FCW the implication is that these additional savings will occur in FCW. Is this the case and if so how will existing FCW programmes be delivered?
5. Qualitative benefits scoring para 3.7.1 and risk appraisal para 3.8. These would have been more convincing if external evaluators had been used. It could be argued that as the people who did this were intimately involved in the SEB programme they were inevitably biased.
Sensitivity analysis para 3.10 and table 12. The margins between options 2 and 4 are small when seen against:
 - the acknowledged approximations of the benefit calculations (see annex 8)
 - the 10 year time scale
 - the higher risk attached to option 4 than option 2
 - also if the non-cash realisable benefits are omitted (£19m for option 2 and £31m for option 4) from the total net benefits the margins between options 2 and 4 narrow and the sensitivity % for 2 over 4 will fall.

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The economic analysis fails to provide a convincing case for preferring option 4 over option 2.

C The commercial case

1. Human Resources para 4.2.1. An all-Wales pension system might hinder staff transferability across the UK. This would be highly undesirable.
2. IT para 4.2.3
 - It reports that the IT workstream recommended a figure of £74.3m and that this was incorporated in the business case. I cannot see how this figure is derived from appendix 9 (p118) where IT capital costs total £14.3m and revenue costs £22.2m (total £36.6m). Where is the balance of £37.7m?
 - The difference in IT costs between option 2 (p116) and option 3 (p 117) suggest the overwhelming cost of IT is for the EA
 - I think it's important that the new IT system should interface easily with FCGB systems and presumably also England's EA system
 - It is absolutely clear that failure to deliver a working IT system on time will seriously jeopardise the project. The record of public sector IT systems doing this is very poor. Is this risk realistically accounted for?
3. Charging systems para 4.3.4 Where is the revenue generated by FCW (timber sales, recreation revenue etc) shown? At the moment this offsets FCW expenditure. Will this continue to be shown as income earned by forestry or subsumed into the SEB budget? It's desirable that it is clearly identified as income earned from forestry activities.

D Financial case.

1. Annex 18 section 4 sources of funding (p204). This has some revealing information. In option 4 cash realisable benefits from FCGB (does this mean FCW?) total £13.6m just 10% of total cash realisable benefits. It indicates that inclusion of FCW is marginal to the whole case.

Overall conclusions

- The report provides a far from convincing case for including FCW in the SEB
- Virtually no disaggregated financial information is given to show exactly where (ie from FCW, EA, CCW) benefits arise or costs are incurred
- Several assertions are made which clearly do not apply to FCW (eg the autonomy argument). This is misleading.

The New Body

The Minister has decided to proceed with the creation of a new body. While disappointed with the decision, the forestry sector will be proactive in helping shape this new organisation. Confor and the Wales Forest Business Partnership are organising an industry briefing event on 9th February in Newtown. The aim of the event is to enable

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companies, individuals and organisations to respond to the forthcoming government consultation.

The Minister has confirmed his commitment to the Welsh Government's Strategy "Woodlands for Wales" and in particular to a competitive and integrated forest sector as part of the Government's sustainable development principle. Forestry Commission Wales has been the lead organisation taking forward the strategy.

The delivery of Woodlands for Wales must not be jeopardised by the merger of FCW with the Environment Agency (EA) and Countryside Council for Wales (CCW) into the new Body.

To guarantee the continuation and future development of these forestry benefits the following safeguards should be embedded.

1. Guiding principles

Economic and social objectives must have equal weight as environmental objectives in the guiding principles. The emphasis in the Natural Environment Framework (NEF) as described in "Living Wales" is overwhelmingly on environmental considerations to the virtual exclusion of economic and social factors as guiding principles. If economic and social objectives are not given due weight, the new body's decisions will seriously damage the rural sector.

2. Definitions

Words such as "Natural Resources", "Environment", "Natural Environment", "Sustainable Development" need to be clearly defined.

3. Policies for Welsh woodlands

The Welsh government's forestry strategy "Woodlands for Wales" (2010) has wide support across the forestry sector. It should be adopted as the blueprint for the future of forestry in Wales.

4. Nomenclature

The word Forestry (or Forests or Woodlands) should be included in the title for the new body. Virtually all governments in Europe have a Forestry ministry or agency. The absence of any reference to forests in the title will undermine the high international reputation of Welsh forests and forestry.

5. Links across the UK

Existing links to UK/GB forestry bodies must be maintained as these benefit Wales. The most important of these are:

- Forest Research (the research agency of FCGB which serves the interests of all countries)
- Statistics, in particular production forecasting
- Forestry standards (the UK Forestry Standard sets out standards for forest management required to meet international treaty obligations) and statistics

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- Plant health regulations (principally measures to prevent the importation and spread of plant pathogens). These are mainly administered by DEFRA

6. Governance

The Minister must not underestimate the difficulty of the task of bringing three organisations together with such different cultures. The driver for change must be to create an organisation better than the sum of its parts.

The appointment of a Chief Executive with a track record of successful change management is essential. The culture of the new organisation needs to move away from regulation “no, you can’t” to enabling “let’s make it happen”. Internal communication procedures will need to be established early. There needs to be a change audit process involving external users where structural issues can be identified and rectified rapidly.

There must be a clear organisational structure for managing the current assets of FCW. There should be a Head of Forestry who champions the importance and needs of the forestry sector within the sustainable development principle. S/He must be a director of the new body.

The two positions of Forestry Commissioners for Wales should be retained and they should be non-executive directors of the new body. This will ensure senior level links with UK forestry.

At the field level, officers must have expertise in the area they are working in. Currently woodland owners/managers have to deal with officers from all three organisations. This can be simplified. An appeals process which is clear, transparent and with defined timelines for resolution will be necessary.

7. Partnerships within Wales

Successful implementation of the NEF will require active participation and commitment by the private and voluntary sectors which own and manage most rural land in Wales. FCW has an established network of partner organisations which are already actively involved in delivering the policies in “Woodlands for Wales”. These partnerships should be retained.

8. External advice

The new body should have an external advisory body on forests and woodlands to reflect stakeholders’ views. The current Woodland Strategy Advisory Panel is a possible model.

9. Professional career structure

A UK wide career structure for forestry professionals should be retained. All countries benefit from cross-border staff movements.

10. Commercial activities

The new body must continue with the current commercial activities of FCW in particular timber production. These provide income which meets approx 50% of FCW expenditure. They will also ensure that the new body is kept abreast of economic and commercial

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trends affecting the forestry sector. The commercial skills, knowledge and acumen of FCW staff must not be lost.

11. Finance

Income and expenditure related to forestry activities in the new body must be transparent and not hidden within consolidated accounts for the new body. In particular revenues earned from timber sales, recreation services and other sources must be clearly identified and should be ring-fenced for use on forest/woodland related activities.

Kath McNulty
National Manager for Wales
January 2012

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