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# Operations of the Forestry Commission Wales Follow-up Report



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

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**Report presented by the Auditor General for Wales to the  
National Assembly for Wales on 17 January 2013**



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## Summary

- 1 The Forestry Commission Wales (FCW), which is currently a part of the Forestry Commission Great Britain, makes recommendations to the Welsh Government on its forestry policy. The FCW is also responsible for delivering the Welsh Government's objectives for forestry as set out in the *Wales Woodlands Strategy* (March, 2009).
- 2 From April 2013, FCW will no longer be part of Forestry Commission Great Britain. Together with the Countryside Council for Wales and the Environment Agency Wales it will form part of a new organisation called Natural Resources Wales ([Appendix 2](#)).
- 3 In order to deliver the Welsh Government's forestry objectives, FCW: manages the Welsh Government woodland estate (some 38 per cent of forestry land in Wales); regulates forestry in Wales (including issuing licenses for felling and replanting); and supports the Welsh Government in delivering its grant scheme to encourage woodland creation and more sustainable woodland management in the private sector.
- 4 In 2010-11, FCW generated £14.13 million from timber sales. It received the majority of the remainder of its £50 million costs from the Welsh Government, with some funding from European grant schemes.
- 5 In November 2010, the National Assembly's Public Accounts Committee considered the award by FCW of a grant to Calon yn Tyfu Cyf (Calon) to purchase Ffynone and Cilgwyn woodlands in Carmarthenshire, following earlier publication of a report by the Wales Audit Office. The Committee had previously, in November 2008, considered a broader range of FCW's functions, again following an earlier report by the Wales Audit Office.
- 6 In its report on the grant award to Calon the Committee recommended that the Wales Audit Office test the implementation by FCW of all recommendations made to FCW by the Committee and the Wales Audit Office.
- 7 This report examines whether FCW, where appropriate together with the Welsh Government, has effectively implemented previous audit recommendations to optimise the long-term benefits of forestry. In order to give a meaningful account of FCW's progress we have grouped recommendations into a series of themes, such as procurement, risk management and grant management.
- 8 We have concluded that FCW has made progress in taking forward audit recommendations but, despite this, some of the original challenges remain and are impeding delivery.



## The FCW now has clear priorities linked to relevant performance indicators and to the Welsh Government's strategy, but lack of detailed planning for delivery is hampering further progress

- 9** The FCW has established its corporate priorities, which are aligned to the Welsh Government's forestry policy and to which its staff are committed. Previous audit work identified a lack of clear corporate strategic direction and alignment with Welsh Government objectives. Since our previous work, FCW has ensured that its priorities are linked to the Welsh Government's March 2009 strategy for forestry in Wales (*the Wales Woodland Strategy*). The FCW's clear strategic priorities are supported by a stronger corporate culture where staff appear united around a clearly understood corporate direction and understand their own role in delivering FCW's objectives. The FCW has also improved its corporate communications, to better inform external stakeholders and staff of its role, purpose and direction. However, a 2011 staff survey showed that there was scope for FCW to further improve communication by senior staff.
- 10** The FCW has developed performance indicators to measure progress in delivering priorities but in some cases has yet to set out the levels of performance it is seeking to achieve. The FCW has developed a set of indicators which are aligned to its corporate priorities and can be used to demonstrate its contribution to the intended outcomes of the *Wales Woodland Strategy*. The FCW told us that for some of the more complex indicators it did not have, at the time of developing the indicators, the data needed: to establish a baseline measure; to measure trends; and to set targets. When the National Forest Inventory becomes available in 2014, FCW will need to assess the scale of the change it wishes to achieve across Welsh woodlands and identify the resources needed and the likely timescale for delivering that change.
- 11** The FCW has high-level plans for delivering its priorities but spatial planning is not yet linked to financial and workforce plans. The FCW has established 10 'corporate programmes' to deliver its corporate priorities. These programmes are essentially action plans which identify tasks, ascribe tasks to a responsible owner and set out a timescale for completing the required action. While the programmes have added clarity to how FCW intends to achieve its objectives there remain some important gaps in its plans for delivery, especially spatial, workforce and financial planning.
- 12** The FCW recognises that it cannot, and should not, do everything everywhere: some actions need to be targeted at specific geographical regions. Spatial planning is the process by which FCW identifies which tasks it should carry out in which areas of Wales. As a result of the decision to proceed with Natural Resources Wales, FCW dropped its original intention to develop a comprehensive formal spatial plan. Instead it is taking forwards spatial planning on a case-by-case basis as part of the corporate programmes. We have seen evidence that spatial planning is under way, including work to prioritise action in the most deprived areas of Wales, but it is not yet comprehensive and FCW recognises that further progress is a key priority.

- 13 The progress made to date on spatial planning has impacted on FCW's ability to accurately plan the financial and staff resources needed to deliver its objectives. The FCW still cannot accurately cost its corporate programmes as it has yet to develop a complete understanding of which tasks should be carried out in which areas of Wales. In the interim, FCW has taken a number of important steps to align its financial processes with its intended outcomes, for example, it has introduced an Accounting by Objectives system, so that its accounting systems are now structured around its 10 corporate programmes. However, as in 2008, financial planning is predominantly 'bottom up', that is, driven by the finances that have historically been made available to the local areas, rather than by strategic priorities. The developing nature of its spatial planning also impacts on FCW's ability to carry out robust workforce planning. The FCW's current Staffing Action Plan does not assess whether FCW has the right skills mix in the right locations to deliver its corporate priorities. Nor does the action plan set out what actions, if any, FCW needs to take to ensure that it has the right number of appropriately skilled staff in the right places to deliver its corporate priorities. Only when it has comprehensive business plans that link corporate priorities to clear spatial, financial and workforce plans will FCW be able to plan for the longer term.
- 14 **The FCW is in the early stages of planning the future of the forest estate and has developed plans to manage other key assets, but these plans will need to evolve, as decisions about the future composition of the estate have been put on hold until after April 2013.** In 2008, we recommended that FCW and the Welsh Government develop a clear strategy for the future development of the forest estate, including proposals for the disposal and acquisition of land and for the use of any receipts. In February 2011, FCW and the Welsh Government agreed a set of principles to underpin the future development of the estate. This agreement was the culmination of work started in March 2009, when the Minister for Rural Affairs commissioned FCW to review the future of the publicly owned estate and its role in delivering the Welsh Government's objectives for forestry.
- 15 The FCW has made progress in taking forward the principles agreed in February 2011, but key decisions have been postponed following the decision to establish Natural Resources Wales. The FCW has assessed the extent to which individual blocks of woodland can contribute to delivering its priorities and considered options for disposing of land, either through sales or through transfer to the third sector. The FCW established a 'Repositioning Programme' to oversee its disposal and acquisition of land and it has established a reserve of £0.8 million to fund new land acquisitions. The FCW is also exploring ways of acquiring land through methods other than buying the freehold, for example through long-term leases. However, FCW told us that it decided to put on hold much of the decision making and detailed planning needed to take forward its work on acquiring and disposing of land. It believes these decisions should be taken by Natural Resources Wales, which will be launched in April 2013.
- 16 The FCW has reviewed all of its other significant non-estate assets to assess whether they are needed, fit for purpose, and are in the right location. However, despite this good progress, there remain weaknesses and risks in aspects of FCW's management of both its estate and non-estate assets. The FCW has not developed performance measures, to enable it to assess the success of its asset management plans and strategies, and decisions about the future composition of the estate, which might well impact on FCW's plans for its other assets, have yet to be made.



## The FCW has sought to improve its core processes by issuing new guidance and updating procedures but some of the original problems persist

- 17 The FCW has strengthened its risk management processes but some weaknesses remain.** The FCW has made progress in some of the areas of risk management where we had previously expressed concerns. The FCW has: established risk registers for key areas of its business; improved the frequency with which risk registers are reviewed; and provided appropriate levels of risk management training for its staff. However, FCW still does not align its risks to its corporate priorities. (The FCW told us that it had decided that there was no real benefit in doing so as the majority of its risks were cross-cutting.) Nor is it clear that FCW has identified opportunities to improve the way it runs its business and delivers its responsibilities – even though its own risk management policy requires it to do so.
- 18 The FCW has established a single procurement service which, if implemented effectively, should address weaknesses in its procurement arrangements.** In April 2012, FCW established a single procurement service. The team of seven staff led by a qualified head of procurement is responsible for undertaking all procurement activity over £20,000. This was in response to FCW identifying a number of non-compliant procurement processes, despite the actions it took to improve procurement subsequent to our 2008 report.
- 19** Where it has sought to review expenditure through Government Procurement Cards limited data in terms of the types of goods and services being purchased through these cards has prevented a full trend analysis with regard to spend. And, although, it has developed a procurement strategy, FCW has not established an approach for measuring its success in delivering that strategy.
- 20** In 2008, we found that FCW's expenditure was weighted towards the year end and that this risked hurried year end spending with the allied risk of poor procurement planning. This study found that, while spending was still weighted towards the last two quarters of the year, the tendency was less pronounced than we had found in 2008. The FCW told us that this pattern of expenditure reflected the nature of its business, as planting and restocking takes place in the spring.
- 21 Management of aspects of timber production and sales remains weak and FCW has not developed its resilience to the risk of falling timber income, but it is making good progress in meeting its commitments to its timber customers.** The FCW is now more reliant upon timber income as its income from other sources has declined since we reported in 2008. In 2007-08, FCW generated £14.6 million in income from non-timber sales, primarily through European grants. By 2010-11, FCW's income from sources other than timber sales had fallen to £5.8 million. This failure to diversify its income base makes FCW vulnerable to falling timber prices. The FCW is also under a Ministerial direction to increase the income generated by the publicly owned estate, particularly through renewable energy generation, but also through using the estate as a site for forest-based holidays. The FCW has taken a number of actions to enhance its income from sources other than timber sales, but the income generated from non-timber sources remains as yet small-scale.

**22** In 2008, we recommended that FCW develop clear contingency plans to deal with fluctuations in the timber market and carry out scenario planning to assess the opportunities and risks from falling or rising timber income. It has not met either of these recommendations. However, it has taken a number of actions to enhance the stability of its income from timber, thereby, it argues, reducing the need to scenario and contingency plan.

**23** Key aspects of FCW's approach to selling timber are not sufficiently evidenced or monitored. The FCW's *Timber Marketing Strategy* (2011-2016) contains a number of objectives including to 'secure best value from the sale of timber'. However, the performance measures developed by FCW do not cover the full range of objectives set out in the strategy. The strategy also sets out FCW's approach to selling timber through direct production and standing sales (Box 1) and through short-term and long-term contracts (Box 2). We found that FCW had not implemented our recommendations to address key weaknesses in its strategic approach to selling timber and its management of contracts. As a result, we cannot be confident that FCW is securing good value for money from its sale of timber. Particular weaknesses we identified include:

- a** work by FCW to identify the factors impacting on the profitability of standing sales and direct production has yet to be used to inform decisions about the appropriate balance between these two methods of timber production;
- b** the FCW has not, as we recommended, carried out a cost-benefit analysis on timber contracts to assess the impact on its income of extending contract end dates; and

**c** despite introducing new guidance on managing extensions to contracts, in the majority of cases, where contracts had been extended, staff were not implementing the correct procedures for authorising such extensions.

**24** For each of the five years between 1 April 2006 and 31 March 2011, FCW guaranteed to bring 770,000 cubic metres of timber to the market. We found that FCW did not deliver this volume in three of the five years, but over the full five-year period FCW met (and slightly exceeded) its commitments to the timber industry. The FCW told us that it would expect to see annual variations against these targets. Furthermore, FCW's timber customers told us that FCW was performing well in terms of meeting their expectations.

#### Box 1 – Direct production and standing sales

**Direct production** – The FCW harvests the timber itself and sells the timber 'at the roadside' as logs.

**Standing sales** – Trees are sold to customers standing and the customers harvest the trees

Source: Wales Audit Office

#### Box 2 – Long-term contracts and short-term contracts

**Long-term contracts** – Since 1997 FCW has sold some of its timber through long-term contracts of between five to seven years. The FCW has set up an independent panel to make decisions about which companies should be awarded long-term contracts.

**Short-term contracts** – These contracts cover shorter periods of usually up to 12 months.

Source: Wales Audit Office



**25 Although FCW has made progress in key aspects of its grant management, this has not always been timely, nor has FCW yet achieved all of the desired outcomes.**

The Wales Audit Office and the Public Accounts Committee reported, in 2010 and 2011 respectively, on FCW's award (of £502,000) to a not-for-profit organisation (known as Calon) to purchase the Ffynone and Cilgwyn woodlands. The award was made under FCW's Cydcoed grant scheme (Appendix 3). The Public Accounts Committee concluded that the structure of FCW's Cydcoed scheme was such that there was a 'significant risk' that the local community would not be sufficiently represented in the grant award process.

**26** The FCW has sought to improve its overall processes for involving communities in the grant award process by issuing new guidance. No new grant projects have come on stream since FCW issued the new guidance, and so we have been unable to test FCW's implementation of its new guidance.

**27** In line with our recommendations, FCW has worked with Calon in an effort to improve long-term public access to, and public engagement in, decision making around the Ffynone and Cilgwyn woodlands. However, despite FCW's actions, the intended outcomes of our recommendations have not yet been achieved. The terms of FCW's contract with Calon constrain FCW's ability to act alone, and mean that it can do no more than encourage Calon to engage with the community and to give the community long-term access to the woodland.

**28** Our routine audit work on FCW's Wood Energy Business Scheme (Appendix 3) in 2009-10 identified serious weaknesses with the scheme which we reported to FCW. This year's audit work concluded that there had been improvements in the control framework for the scheme. However, these only followed critical audit reports and the withholding of grant money by the Welsh European Funding Office.

**29** Where FCW has sought to learn lessons from its implementation of its Better Woodlands for Wales grant scheme (Appendix 3), it has not done this as effectively as it might have done. For example, the FCW has established two performance indicators for the scheme, but has still not developed a suite of indicators that cover the full range of the intended benefits of the scheme, as we recommended in 2008.

## Recommendations

From April 2013, FCW's functions will be delivered by Natural Resources Wales. Therefore, Natural Resources Wales will be responsible for implementing the recommendations. An early action should be to set out who within the new organisation will be responsible for taking forward each recommendation.

### To link corporate priorities to local planning, resource allocation and workforce planning

The FCW has established its corporate priorities and has high-level plans for delivering its priorities but spatial planning is not yet linked to financial and workforce plans.

- 1 When Natural Resources Wales has an adequate understanding of where key actions should be targeted, we recommend that:
  - a an assessment is made of what this means for the current and future skills mix;
  - b the corporate programmes are costed to determine the timescales for delivery, given the likely availability of resources; and
  - c local forest design plans are updated.

### To further strengthen core business processes

#### Procurement

In April 2012, the FCW established a single procurement service which, if implemented effectively, should address weaknesses in its procurement. However, in other areas of its business FCW has struggled to implement new procedures and guidance, and so testing the implementation of the single procurement service is fundamental. Weaknesses in FCW's procurement arrangements identified by this study, included: limited data in terms of the types of goods and services being purchased by Government

Procurement Cards precluding a full trend analysis with regard to spend on these cards; and the absence of measures to assess the success of FCW's procurement strategy.

- 2 We recommend that:
  - a there is a review of the operation of the single procurement service to assess whether it is operating as expected and delivering the intended improvements;
  - b the procurement service develops an approach to measuring performance against the objectives set out in FCW's procurement strategy; and
  - c the single procurement service further reviews purchases through Government Procurement Cards to assess whether the goods and services purchased could be procured in other more cost-effective ways.

#### Risk management

It is unclear whether FCW has identified opportunities to improve the way in which it does its business and delivers its responsibilities – even though its own risk management policy requires it to do so. The FCW's corporate risk register does not explicitly identify opportunities. We are uncertain as to whether this is because FCW has not identified any opportunities which it feels merit inclusion within its corporate risk register, or whether it is because FCW has not undertaken an examination of the opportunities before it. The FCW has not met our 2008 recommendation that it should link its risk register clearly with its corporate objectives.

- 3 We recommend that Natural Resources Wales consider the merit of:
  - a formally identifying opportunities within its risk registers; and
  - b aligning risks to corporate priorities, where appropriate.



## To manage its resources more effectively

### Timber production and forecasting

The FCW's *Timber Marketing Strategy* (2011-2016) did not establish how FCW would measure the success of the strategy. Nor was the approach towards key aspects of timber production set out in the strategy underpinned by sufficient evidence.

- 4 We recommend that Natural Resources Wales:
  - a establishes an approach to measuring, evaluating and reporting on the success of its timber strategy; and
  - b feeds the results of the FCW's work on the factors affecting the profitability of direct production and standing sales into a wider cost-benefit analysis, to ensure that its future decisions about the balance between these two methods are underpinned by sufficient evidence.

In 2009, FCW issued revised guidance (which was further updated in April 2010) setting out the procedures staff needed to apply to authorise timber extractions over contract levels. Our testing showed that staff were not implementing these new procedures.

- 5 We recommend that:
  - a a review is undertaken of the reasons for non-compliance with procedures, to identify areas for improvement such as revisions to guidance or additional staff training;
  - b spot checks are made of a sample of contracts to ensure that staff are implementing guidelines; and

- c a cost-benefit analysis is undertaken of the impacts on income of extending contracts beyond the contract end date and authorising contractors to extract more timber than agreed in contracts.

The FCW has taken some action to help it secure income from sources other than timber. However, since we reported in November 2008, FCW's income from non-timber sources has fallen from £14.6 million in 2007-08 to £5.8 million in 2010-11.

- 6 We recommend that Natural Resources Wales develops a formal strategy and action plan to increase its income from sources other than timber. Any such strategy would need to be tied in with the ongoing work on the future development of the forest estate and would need to be monitored to ensure it was delivering the anticipated benefits.

### Acquiring and disposing of forest land

The FCW has undertaken a wide range of activities to develop its understanding of how the estate can contribute to the delivery of the Welsh Government forestry objectives. However, the detailed decision making and planning needed to take this work forward has been paused until the launch of Natural Resources Wales, in April 2013.

- 7 We recommend that Natural Resources Wales sets out, as a matter of priority, a timetable for how it will build upon the progress made by FCW in identifying how the estate can best contribute to Welsh Government's objectives.

### **To manage change effectively**

Results from the most recent employee opinion survey demonstrate that FCW has made good progress in developing a stronger corporate culture. Staff appear united around a clearly understood corporate direction and understand their own role in delivering its objectives. However, the transition to Natural Resources Wales will be a period of change for staff which may undermine the good progress made.

- 8** We recommend that to mitigate this risk a staff survey is undertaken in the early days of Natural Resources Wales to capture the impacts of the merger on such factors as staff engagement, and relevant actions are taken to address the results of the survey.

### **To develop a culture of continuous improvement by enhancing learning from review, scrutiny and challenge**

A number of the recommendations made above were also made in previous audit reports. For example, it had been previously recommended that FCW: carries out robust workforce planning; develops risk management arrangements to identify both opportunities and threats; and assesses the costs and benefits of changing the balance between direct production and standing sales. In its 2009 report on the operations of FCW, the Public Accounts Committee recommended that 'the Welsh Government work with Forestry Commission Wales to ensure implementation of the recommendations made to that organisation, both by the Auditor General and this Committee'.

- 9** We recommend that:

- a** Natural Resources Wales ensures that it puts in place arrangements for the periodic scrutiny of the implementation of all audit recommendations.
- b** The Welsh Government reviews the way in which it takes assurance that both its own departments and organisations which it funds to deliver its objectives are implementing audit recommendations. The review should look at how the Welsh Government takes assurance, not only that organisations and/departments are updating policies, guidance and procedures, but that any such changes are being implemented effectively and delivering their intended benefits.



## Part 1 - The FCW now has clear priorities linked to relevant performance indicators and to the Welsh Government's strategy, but lack of detailed planning for delivery is hampering further progress

**1.1** In 2008, we found that FCW staff did not feel that there was a clear set of organisational priorities and that FCW's corporate plan did not link priorities to resources. This part of the report looks at the progress FCW has made in establishing a clear corporate direction which is underpinned by robust plans for delivery.

### **The FCW has established its corporate priorities, which are aligned to the Welsh Government's forestry strategy and to which its staff are committed**

**1.2** In 2001, the Welsh Government published its 50-year vision for forestry entitled *Woodlands for Wales*. In March 2009, the Welsh Government published a revised strategy, which retained the same name. This report will refer to the March 2009 document as the *Wales Woodlands Strategy*, to distinguish it from the 2001 *Woodlands for Wales strategy*. The *Wales Woodlands Strategy* reiterated the Welsh Government's ambitions for a broader forestry agenda<sup>1</sup> and incorporated new policy priorities, notably climate change.

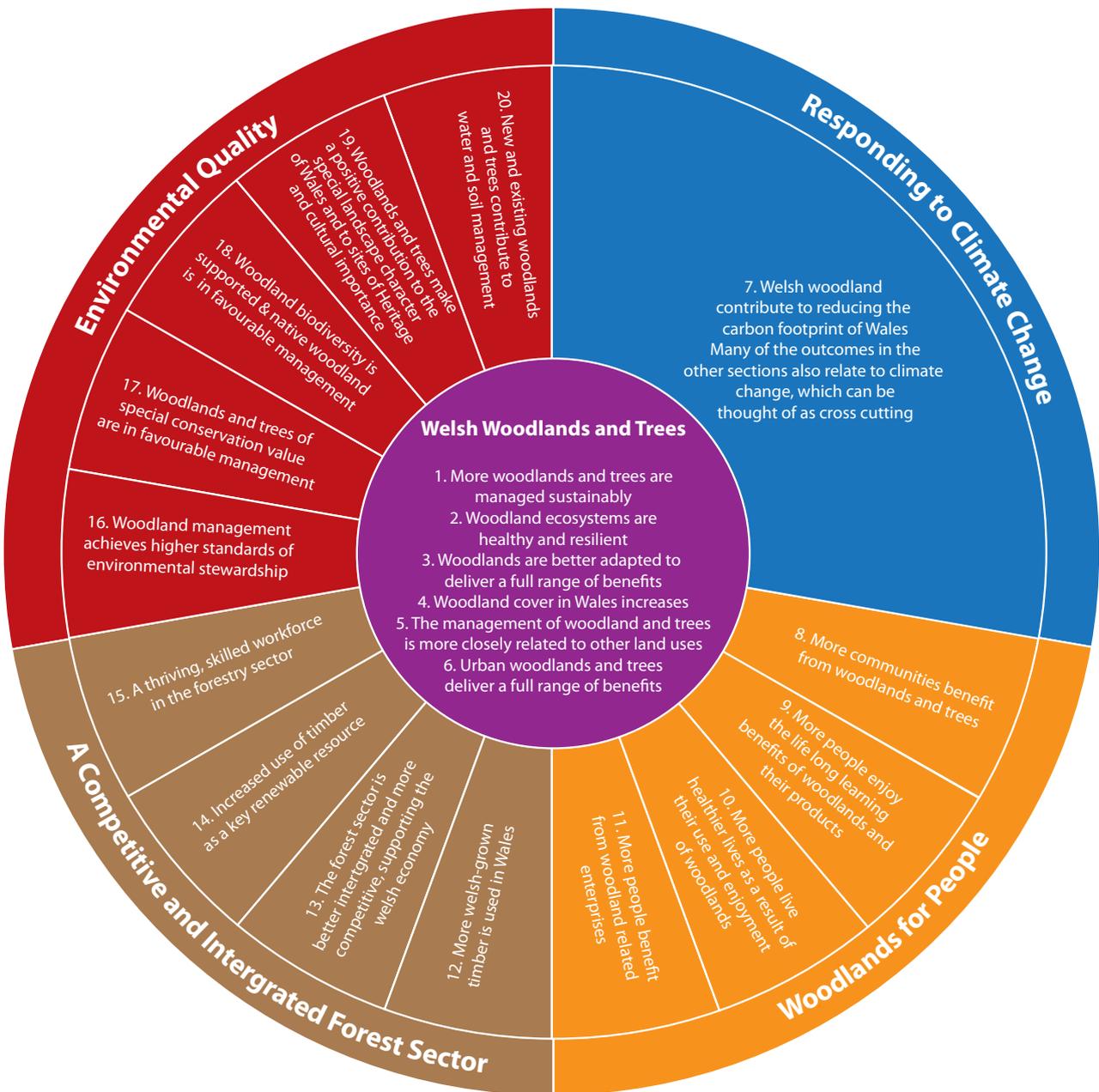
**1.3** The *Wales Woodlands Strategy* sets out, under a series of themes, the outcomes that the Welsh Government expects for and from Welsh woodlands. There is an overarching 'foundation theme', called *Welsh woodlands and trees*, and this theme has six high-level outcomes (Figure 1). The overarching theme and its associated outcomes are underpinned by four 'strategic themes' for forestry in Wales linked to 14 outcomes.

**1.4** The FCW has made good progress in setting out a clear corporate plan and priorities, linked to the Welsh Government's strategy. Over the course of this study FCW revised its 2011-2014 corporate plan, and published a corporate plan covering 2012-2015. The FCW's corporate plan (2011-2014) clearly set out nine priorities for action that are aligned to the *Wales Woodlands Strategy* themes. The 2011-14 corporate plan did not make explicit links between FCW's nine priorities and the *Wales Woodlands Strategy* outcomes, but this was addressed in FCW's 2012-2015 corporate plan.

**1.5** In addition to having clear priorities on paper, results from the most recent employee opinion survey demonstrate that FCW has made good progress in developing a stronger corporate culture. Staff appear united around a clearly understood corporate direction and understand their own role in delivering its objectives (Figure 2).

<sup>1</sup> The Welsh Government's 2001 strategy *Woodlands for Wales* set out a new direction for woodlands. It signalled a shift away from 'single purpose plantations' (aimed at supporting timber industries) towards the use of woodlands and forests to support the delivery of a wide range of Welsh Government social, economic and environmental policies.

Figure 1 – The outcomes the Welsh Government expects for, and from, Welsh woodlands



Source: The Wales Woodlands Strategy, March 2009



## Figure 2 – A 2011 staff survey indicated that the majority of staff were committed to FCW's strategic direction and understood how they contributed to its objectives

In September 2011, Forestry Commission Great Britain commissioned Capita Surveys and Research to conduct its staff survey. Staff across all three of the countries comprising Forestry Commission Great Britain were given the opportunity to complete the survey online, via the telephone or on paper. The overall response rate for Forestry Commission Great Britain and FCW was 60 per cent and 76 per cent respectively.

The survey calculated what is known as an 'employee engagement score', which is based on employee responses to the following three statements (in all cases the percentage figure reflects the percentage of FCW employees who agreed or strongly agreed with the statement):

- 'I am proud when I tell others I work for the commission' (80 per cent);
- 'I would recommend the commission as a place to work' (73 per cent); and
- 'I feel committed to the commission's purposes and objectives' (81 per cent).

Across FCW, the employee engagement score was 78 per cent, compared to 69 per cent across Forestry Commission Great Britain as a whole. (In a survey of its own staff, the Welsh Government also used the same three questions to calculate its employee engagement score. It achieved a score of 47 per cent.)

Other relevant results included:

- 78 per cent of staff agreed/strongly agreed with the statement 'I have a clear understanding of the commission's purpose';
- 78 per cent of staff agreed/strongly agreed with the statement 'I have a clear understanding of the commission's objectives';
- 89 per cent of staff agreed/strongly agreed with the statement 'I understand how my work contributes to the commission's objectives'; and
- 93 per cent of staff agreed/strongly agreed with the statement 'I understand how my work contributes to my team's objectives'.

Source: FCW staff survey report, December 2011

**1.6** Since 2009, FCW has run all-Wales staff meetings, the purpose of which has been, in part, to develop a shared sense of purpose. As of March 2012, FCW had held three such all-staff meetings. The FCW sought staff views of the meetings, and told us it had used staff feedback to further shape internal communications. Despite this it remains our view that, as only 35 per cent of those attending the most recent (2011) all-staff meeting completed the evaluation form, it is difficult for either us or FCW to assess whether these meetings are delivering their intended objectives. The FCW is considering ways of encouraging more staff to provide feedback.

**1.7** In 2008, we recommended that FCW develop a strategic communications plan. It was our intention that this should be used to both support external stakeholders' understanding of FCW's corporate priorities and allow FCW to better engage with staff. The current study found that FCW has met this recommendation, and was in the early stages of developing an approach to evaluating these actions, but the merger decision put the proposed evaluation on hold (Figure 3).

### Figure 3 – The FCW has developed a strategic communications plan to both support external stakeholders’ understanding of its strategic objectives and better engage staff with its priorities

In 2009, FCW published a three-year strategic communications plan, which is ‘refreshed’ on an annual basis. The plan sets out the key communication messages FCW wishes to convey under each of the *Wales Woodlands Strategy* themes. For example, under the theme ‘a competitive and integrated forest sector’, the strategic communications plan states that FCW will stress the message that ‘locally-grown, certified timber is a sustainable renewable resource with many uses’.

The decision to refresh the plan annually ensures that FCW’s communications strategy remains up to date and responsive to changing circumstances. Both the refreshed plans for 2010-11 and 2011-12 set out the need for FCW to focus its communication efforts on messages that promote the economic benefits of forestry in terms of promoting jobs, enterprises and business, in response to the economic downturn and the Welsh Government’s emphasis on economic renewal.

The FCW also uses the opportunity to annually update the plan to look forward and identify where it might wish to focus its communications efforts in the future. For example, in 2011, FCW identified that in the next three years it was likely to need to prioritise its communications efforts around the involvement of communities in woodlands. Emerging plans to reposition the publicly owned forest estate are focused on encouraging more community use and ownership of woodlands.

The FCW was planning to evaluate the impacts of a small number of projects where it felt its communications had been particularly strong. But, FCW has not carried this out, due initially to staffing constraints and then to the merger process, which has required significant input from FCW’s communications staff.

Source: *Wales Audit Office*

### Figure 4 – Communication by line managers is viewed more positively than communication by senior managers

The December 2011 staff survey found that:

- 81 per cent of staff agreed/strongly agreed with the statement ‘my line manager clearly explains my team’s purpose, objectives and plans’, the respective rating from the 2009 survey was 72 per cent;
- 61 per cent of staff agreed/strongly agreed with the statement ‘senior managers are sufficiently visible within the commission’, the respective rating from the 2009 survey was 49 per cent; and
- 47 per cent of staff agreed/strongly agreed with the statement ‘senior managers communicate effectively’, the respective rating from the 2009 survey was 36 per cent.

Source: *FCW staff survey report, December 2011*



**1.8** However, the results from the recent staff survey also suggest that FCW needs to further improve communication by senior staff. Staff were asked to respond to a series of statements about the effectiveness of communication by line managers and senior staff. Communication by line managers was viewed more positively than communication by senior managers, although there has been an improvement since these questions were last asked about senior managers in 2009 (Figure 4).

## The FCW has developed performance indicators to measure progress in delivering priorities but in some cases has yet to set out the levels of performance it is seeking to achieve

**1.9** In 2008, we found that FCW's key performance indicators were insufficiently linked to its strategic objectives and to *Woodlands for Wales* indicators. As a result, it was difficult for FCW to assess its performance in delivering the key forestry strategy for Wales. Since then FCW has, as we recommended, reviewed its key performance indicators. To measure progress in delivering its strategic priorities, the FCW has established 31 indicators. The FCW can demonstrate how this set of indicators can be used to assess its contribution to the *Wales Woodlands Strategy* outcomes. The FCW has also established a separate set of 15 indicators (covering 2009-2012) to assess how well it is operating as a business.

**1.10** The FCW sought to establish targets for the period covered in the corporate plan (2009-2012) and longer-term targets covering the period until 2025<sup>2</sup>. However, FCW did not set targets for all of its 31 indicators (Appendix 5), despite some of these indicators clearly lending themselves to numerical targets. It is not our view that the sole way to assess performance is through the use of numeric targets but it is our view that the following examples of FCW indicators should have numerical targets associated with them:

- a area outside of the publicly owned estate managed by Continuous Cover Forestry, or under transformation to Continuous Cover Forestry<sup>3</sup>;
- b area of native woodland; and
- c proportion of native woodland in favourable/recovering condition.

**1.11** The FCW told us that, for some of the more complex indicators, such as proportion of native woodland in favourable/recovering condition, it did not at the time of writing the 2009-2012 performance indicators, have the information needed to determine sensible targets. The FCW also told us that for those indicators where it does not yet have targets, it has identified the data sets needed to establish a baseline, measure trends and set targets. When the National Forest Inventory becomes available in 2014, FCW will need to assess the scale of change it wants to achieve across the Welsh forests and identify the resources needed and the likely timescales for delivering that change.

<sup>2</sup> The FCW told us that it had chosen the period to the end of 2025, as this reflects the half-way point of the 50-year vision for Welsh woodlands, as set out in the original 2001 *Woodlands for Wales* strategy.

<sup>3</sup> *What is continuous cover forestry?* Forestry Commission Great Britain, October 1999

## The FCW has high-level plans for delivering priorities but spatial planning is not yet linked to financial and workforce plans

**1.12** This part of the report looks at the quality of the planning FCW has undertaken to deliver its intended objectives. It particularly considers FCW's progress in identifying where to deliver priority actions (known as spatial planning), and in identifying and allocating resources (both financial and human) to its priorities.

### The FCW has high-level plans setting out what it intends to do to deliver its corporate priorities

**1.13** The FCW's high-level plans are set out in its 10 'corporate programmes'. Each of the corporate programmes is broken down into a series of sub-programmes, which are further broken down into a series of tasks. Each task is accompanied by a timescale for delivery and responsibility for delivering that task is ascribed to a lead unit within FCW. For example, as part of delivering its priority of using Welsh woodlands to mitigate the impacts of climate change, FCW has established a renewable energy corporate programme. Within the renewable energy programme is a sub-programme to facilitate community scale renewable energy. Actions under this sub-programme are ascribed to FCW's Estates Management Group and the Policy, Programmes and Development team and timescales are also identified.

**1.14** In response to the merger decision, FCW has reviewed the tasks supporting delivery of its 10 corporate programmes to identify which actions are 'critical' and which actions are of a lower priority. It has then used this assessment to further prioritise its work.

## Spatial planning is under way but is not yet linked to high-level financial and workforce plans, and FCW has identified that further progress in this area is a priority

**1.15** The FCW is clear that some tasks within the corporate programmes cannot, and should not, be carried out across Wales as a whole, but should be targeted at specific geographical regions. Spatial planning is the process by which FCW identifies which tasks it should carry out in which areas of Wales.

**1.16** The FCW had originally intended to take forward spatial planning through the development of a formal strategic spatial plan, which would be in place to inform the 2013 round of business planning. The decision to establish Natural Resources Wales led FCW to adopt a different approach, namely to produce spatial plans on a case-by-case basis, as and when such plans were needed to inform decisions.

**1.17** Overall, the process of spatial planning is underway across the 10 corporate programmes, although work is more developed in some programmes than others. For example, FCW has, together with the Welsh Government, developed 'planting maps', which are already informing decisions about where to fund woodland creation on privately owned woodland. In regard to recreation and access, FCW is at an earlier stage of reviewing and mapping its recreation sites. This pattern of progress is to be expected. Some corporate programmes have been established for longer than others; the first corporate programme was agreed in September 2009 and the final programme agreed in November 2010.

**1.18** In autumn 2011, FCW assessed its progress in delivering its corporate programmes and concluded that it needed to accelerate its spatial planning to enhance delivery of its programmes.



**1.19** Since then, FCW has completed what it told us were two key spatial planning exercises:

- a** In July 2012, the Environment Minister launched the revised Ancient Woodland Inventory. One of the aims of the new inventory is to help to steer development away from ancient woodlands, as the Welsh Government's *Planning Policy Wales*, which gives guidance to local authorities, recognises the importance of these ancient woodland sites.
- b** In October, 2012, FCW published its *Strategic Assessment of the Afforested Peat Resource in Wales*, which includes for the first time a detailed assessment of deep peat that has been planted with trees. This inventory will help FCW and others to assess the potential/feasibility for restoration of peat sites which have previously been planted with trees.

**1.20** The FCW has carried out a number of other actions to improve its planning process, and spatial planning in particular:

- a** The FCW has a project to improve the quality and management of its spatial data.
- b** The four Forest Districts<sup>4</sup> have not updated their plans to reflect and align with FCW's corporate priorities. In part to address this, in April 2012, FCW appointed a Wales Planning Officer to ensure that FCW's strategic and operational forest planning processes are aligned with its corporate programmes.
- c** The FCW is piloting its approach to spatial prioritisation through its involvement in the Heads of the Valleys and the Western Valleys regeneration areas (Figure 5).

- d** The FCW carried out a review to identify how to free up resources to carry out more forest-level planning. This review work concluded in February 2012 with FCW's Management Board deciding to centralise its local forest planning function.

**1.21** Initially, FCW decided not to work out the precise cost of its corporate programmes until they had all been developed. At the start of the process of developing the corporate programmes, FCW's Management Board agreed that it was inevitable that some actions would cut across corporate programmes and contribute to the delivery of more than one corporate priority. The details of which actions will cut across corporate programmes would only become clear when all 10 programmes had been developed. So in delaying the costing until it had developed all corporate programmes, FCW was seeking to identify the synergies and linkages between programmes and develop a more accurate understanding of the costs of the programmes. At the outset, FCW also concluded that it was only when all programmes had been fully developed and costed that they could then be linked to business planning processes.

**1.22** Now that the 10 programmes have been developed, FCW should be in a position to undertake comprehensive financial planning. However, the absence of a complete set of clear spatial plans means it does not know exactly what activity it intends to carry out where across Wales. Without that information, FCW will struggle to identify the costs of its programmes and to make decisions as to where to prioritise action between programmes and between tasks and activities within programmes.

<sup>4</sup> Responsibility for putting the corporate programmes into action rests with a number of key delivery units within FCW, particularly the four Forest Districts, Wales Harvesting and Marketing and Wales Silvicultural Operations. (Appendix 4 describes the main responsibilities of these key delivery units within FCW.) Each delivery unit has its own senior manager and is responsible for developing local plans.

- 1.23** In the meantime, FCW’s approach to financial planning continues in some key respects as it was in 2008. It is still the case that, financial planning is ‘bottom up’, that is, driven by the finances that have historically been made available to the local areas, rather than by strategic priorities. In response, FCW has taken a number of steps to align better its financial processes with its outcomes:
- a** As a part of the annual business planning process, the Finance department and FCW policy staff meet with operational managers to raise awareness about the need to better link business planning to corporate priorities.
  - b** District managers use a pro forma business planning document which is structured around the 10 corporate programmes. These documents are reviewed by a Management Board member to assess their fit with FCW’s corporate programmes.
  - c** In 2010-11, FCW introduced Accounting by Objectives, so that its accounting systems are now structured around its 10 corporate programmes.

**Figure 5 – The FCW is using its involvement in the regeneration area partnerships to develop its approach to spatial prioritisation**

The Welsh Government has identified seven regeneration areas, which are ‘currently under-performing, both economically and in terms of wellbeing’. It has committed itself to investing in these areas, in order to raise their performance with ‘the aim of addressing the inequalities experienced across geographical areas in Wales’.

The FCW has demonstrated its commitment to spatially prioritising its actions by targeting some of its resources on two of these seven areas. The FCW has fully funded a post in the Heads of the Valleys and part funded a post in the Western Valleys. The post holders have supported the local regeneration area partnerships in developing woodland plans, which aim to deliver job and training outcomes along with health, education and landscape change by creating focus points for activity where regeneration benefits are greatest. It is envisaged that these objectives will be achieved by enhancing existing woodland; creating new areas of woodland and improving the local woodfuel supply chain. (There is currently a significant amount of timber on the publicly owned estate in the Heads of the Valleys area which is unmanaged primarily due to infrastructure and access problems. The FCW is in the early stages of examining how to target some of its resources, and those of its partners, on addressing these problems.)

Although yet to be implemented, FCW has also made a number of other commitments to prioritise the regeneration areas and so spatially target its activities. For example, it has committed to focus its work on the development and promotion of best practice in the planting, management and conservation of urban woodlands on the regeneration areas. It has also committed to focusing on bringing more woodlands into management within the regeneration areas.

The FCW is also using its involvement in the regeneration areas to pilot new approaches to land ‘ownership’. It is using its involvement in the local regeneration area partnerships to explore ways to achieve sufficient interest in woodland blocks to determine the land management practices used, short of buying the land. For example, through the use of short and long-term leases and other kinds of land management agreements. The FCW is developing an options paper setting out how to offer land holders in the regeneration areas an increased grant, if their land is suitable for planting. Options being explored are to supplement Welsh Government funding for agri-environment schemes with other funding sources such as regeneration or Wind Energy Programme monies.<sup>5</sup> These proposals are in their early stages and FCW told us that the options paper should go to its Management Board for consideration in the early summer of 2012.

Source: Wales Audit Office

<sup>5</sup> Installing turbines under the Wind Energy Programme will lead to the loss of approximately 5000ha of woodland. The Welsh Government has made the commitment that there will be no net loss of woodland. In order to meet this commitment, those awarded contracts under the Wind Energy Programme are required to provide funding for the cost of creating 5000ha of woodland.



- 1.24** The FCW told us that to some extent the finances made available to local areas will not change over time, as local areas have some ongoing, and largely unchanging, land management responsibilities, for example repairing fences.
- 1.25** The developing nature of its spatial planning also impacts on FCW's ability to carry out robust workforce planning for the future. Without a full set of clear plans stating what it intends to deliver and where, FCW will struggle to identify its staffing requirements. The FCW has revisited its (2006-2010) Staffing Action Plan<sup>6</sup>, but the revised document does not assess whether FCW currently has the right skills mix to deliver its corporate priorities. Consequently, the plan does not set out what actions, if any, FCW needs to take to ensure that it has the right numbers of appropriately skilled staff in the right places to deliver its corporate priorities.
- 1.26** The FCW was intending to carry out an exercise entitled 'Building Local Area Capacity' to identify whether it had the appropriately skilled staff in the right numbers in its local areas to deliver its corporate programmes. However, prior to the merger decision, in July 2011, FCW decided to put this work on hold, on the basis that should the decision be taken to merge then any work carried out would become redundant.
- 1.27** Once it has comprehensive business plans that link corporate priorities to clear spatial, financial and workforce plans, the FCW will be able to plan for the longer term. At present, the FCW operates on a three-year planning cycle. However, the woodland agenda is much longer term, with plans and activities inherently often taking a long time to reach fruition.

## **The FCW is in the early stages of planning the future of the forest estate and has developed plans to manage other key assets, but these plans will need to evolve, as decisions about the future composition of the estate have been put on hold until after April 2013**

- 1.28** Spatial planning needs to be linked to an assessment of the potential of the estate to deliver all of the required actions. In November 2008, we recommended that FCW and the Welsh Government develop a clear strategy for the future development of the publicly owned estate, including proposals for the disposal and acquisition of land and for the use of any receipts. In March 2009, the then Minister for Rural Affairs commissioned FCW to review the future of the publicly owned estate and its role in delivering the *Wales Woodlands Strategy* objectives.
- 1.29** The FCW presented an interim report to the Minister in September 2010. The Minister rejected complete privatisation of the estate, but also rejected the idea that no further changes be made to the estate. Instead the Minister asked FCW to develop the idea that the estate be 'repositioned' through a combination of sale, transfer to the third sector and retention in public ownership. The final report (*The Assembly Government Woodland Estate Research Project – final report*), which formally set out the potential for repositioning the estate in this way was published in November 2010.

<sup>6</sup> The FCW re-launched its Staffing Action Plan in April 2011.

**1.30** In February 2011, the Minister gave approval for FCW to take forward the ideas set out in the November 2010 report. To take forward this Ministerial direction and improve its approach to acquiring and disposing of land, FCW has undertaken the following initiatives, which have given it a good basis for making informed decisions about the future direction of the estate:

- a** The FCW has carried out a portfolio analysis to assess whether individual woodland blocks are contributing, or have the potential to contribute, to the delivery of its corporate priorities. The FCW has used this information to inform internal discussions about which blocks to retain, which to sell and which to transfer to the third sector.
- b** The FCW is considering ways of acquiring land, other than on a freehold basis. Pilot work on acquiring land through land management agreements is being carried forward through FCW's involvement in the regeneration area partnerships in the Heads of the Valleys and the Western Valleys (Figure 5).
- c** The FCW established a 'Repositioning' Programme Board to oversee the sale of land that has less potential to deliver public benefits and investment in woodland or land which has the potential to deliver more public benefits.
- d** Following our 2008 report, the Welsh Government agreed a new funding arrangement with FCW, and FCW is using this facility to support its repositioning programme. In 2008, we recommended that the Welsh Government should identify the scope to relax its restrictions on FCW holding reserves. Since 2009-10, the Welsh Government has allowed FCW to hold a cash reserve of up to 20 per cent of its timber income – this facility is known as

the 'Flexible Funding Reserve'. In 2010-11, FCW set up, within the Flexible Funding Reserve, an estates capital reserve for the purpose of purchasing additional land, which currently has a balance of £0.8 million.

- e** The FCW has also estimated it can generate £16 million in income over a four-year period from land sales. This figure is not based on an agreed list of areas for sale. Rather, FCW has estimated that given its available human resources it would be capable of managing the sale of 1,000 hectares of land per year at £4,000 per hectares; £4,000 reflecting the average price of forestry land in Wales.

**1.31** However, the decision making and detailed planning needed as next steps will not occur until the launch of Natural Resources Wales in April 2013. The FCW has agreed that the Board of Natural Resources Wales should take decisions about land disposals and acquisitions. In light of this decision, FCW suspended its Repositioning Programme Board after one meeting.

**1.32** In addition to its woodland assets, FCW has a range of other significant non-estate assets all of which it has now reviewed. However, we consider that there are weaknesses and risks remaining in relation to asset management:

- a** there are no performance measures in place to assess the success of FCW's asset management strategies and plans; and
- b** decisions about the future composition of the estate, which might well impact on FCW's plans for its other assets, have yet to be made.



## Part 2 – The FCW has sought to improve its core processes by issuing new guidance and updating procedures but some of the original problems persist

- 2.1** In 2008, we found weaknesses in FCW's core business processes, including risk management, procurement, timber production and grant management. Our 2009 report into public funding of the purchase of Ffynone and Cilgwyn woodlands also found weaknesses in FCW's grant and project management arrangements.
- 2.2** Part 2 of this report looks at the progress FCW has made in strengthening these core business processes.

### The FCW has strengthened its risk management processes but some weaknesses remain

- 2.3** According to the Office for Government Commerce<sup>7</sup>, almost every decision made by an organisation has an upside and a downside involving some degree of risk. Effective risk management can bring far-reaching benefits, such as: improved service delivery; less time spent firefighting; fewer unwelcome surprises; more efficient use of resources; and increased likelihood of change initiatives being achieved. Effective risk management includes identifying, estimating and evaluating risks, and then planning and implementing risk responses.
- 2.4** The reports on FCW issued by both the Wales Audit Office and the National Assembly's Public Accounts Committee since 2008, found a number of weaknesses with its risk management. The current study found that while progress has been made some weaknesses remain:
- a** The FCW has developed operational risk registers for key business areas. Operational risk registers are 'owned' by Management Board members and are discussed in monthly meetings between the 'owner' and the FCW Director. The FCW's Audit and Risk Committee receives one operational risk register at each of its three meetings per year (and the relevant Management Board member also attends to take questions). Our review of a sample of three operational risk registers identified errors in the scoring of certain risks in two of these. Although these errors had no effect on the overall risk ratings for these risks, FCW's own review process had not been sufficiently rigorous to identify the errors.
  - b** The corporate risk register is reviewed on six occasions each year: three times by the Audit and Risk Committee; and three times by the Management Board.
  - c** The FCW has identified staff requiring formal risk management training and has rolled out training to those staff. The FCW has also developed a *Risk on a Page* document to raise general awareness about risk management among its other staff. *Risk on a Page* is published on FCW's intranet, along with FCW's revised risk management policy. (The FCW's revised risk management policy was approved by its Audit and Risk Committee in March 2011 and by its Management Board in May 2011.) The revised risk management policy was also part of a presentation to the all staff meeting in May 2011.

<sup>7</sup> OGC Best Practice in Risk Management

- d The FCW has not met our recommendation that its risk registers align risks to its corporate priorities. The FCW told us that it had decided that there was no real benefit in doing so as the majority of its risks were cross-cutting. For example, the introduction of Natural Resources Wales is a potential risk to FCW achieving the full range of its objectives.
- e Key documents do not make it clear whether FCW has identified opportunities to improve the way in which it does business and delivers its responsibilities – even though its own risk management policy requires it to do so. The FCW’s corporate risk register is focused solely on threats to the organisation and does not identify opportunities. We are uncertain if this is because FCW does not believe that there any significant opportunities which merit inclusion within its corporate risk register, or if it is because FCW has not carried out any assessment of the opportunities facing it.

## **The FCW has established a single procurement service which, if implemented effectively, should address weaknesses in its procurement arrangements**

**Subsequent to our 2008 report, FCW took a number of actions to improve procurement, but in May 2011, FCW itself identified that these were not sufficient to deliver the required improvements**

- 2.5 In 2008, we identified the need to strengthen procurement to ensure that it better supported delivery of FCW’s strategic objectives. Specific problems included: the absence of central coordination of procurement activity; non-compliance with FCW procedures; the absence of any mechanism for disseminating lessons learned from major procurement projects; and the risk of poor procurement planning, due to expenditure being heavily weighted towards year end.
- 2.6 In response, FCW took a number of actions to meet our recommendations (Figure 6), but did not change its overall approach of delivering procurement locally by unqualified staff.
- 2.7 In February 2011, FCW initiated a review of the progress it had made in improving procurement over the previous two and a half years. The resulting May 2011 paper to its Management Board acknowledged that, although ‘positive steps forward have been made’, FCW has been operating ‘at the lowest level in terms of best practice. Procurement is seen as largely an administrative task with the emphasis being on efficient processing.....it is time to move procurement to a point where purchasing is a key part of strategic planning and where the emphasis is on relationships with suppliers being seen as vital partners.’



## Figure 6 – Improvements to FCW’s procurement practices 2008 -2011

Between 2008 and 2011 FCW made the following improvements in procurement practice:

- The FCW appointed a procurement officer who produced a Procurement Delivery Plan, to deliver a one-off savings target of £0.9 million on 10 larger contracts within three years. The FCW reports that this target was delivered. In 2010, FCW appointed a second procurement adviser.
- The FCW appointed local procurement ‘champions’ who were required to meet with the procurement officer and disseminate information back to local areas.
- The three countries of Forestry Commission Great Britain have worked together to revise procurement guidance for staff.
- The FCW has developed ‘call off’ and ‘framework contracts’ for a number of larger contracts.
- An enhanced contracts database is now in place, to record all contracts and their key details.
- The FCW has increased its working with Value Wales, using their expertise particularly to provide training courses for its staff and suppliers.
- Contract managers’ workshops include lessons learned sessions and its intranet includes procurement lessons learned pages.
- The FCW runs ‘development days’ for suppliers, which it considers innovative and of significant help to many smaller suppliers who may be unfamiliar with government procurement rules.
- In March 2010, the Welsh Government commenced a shared services programme between FCW, the Countryside Council for Wales and the Environment Agency; procurement was a key element of this development and there is now a shared procurement programme.
- Updated guidance and training for staff on procurement arrangements in April 2011.

Source: Wales Audit Office

**2.8** The paper highlighted a number of cases (varying in value between £25,000 and £3 million) where FCW’s procurement staff had identified non-compliant procurement processes, and intervened to address the emerging issues. The paper concluded that such non-compliance, ‘together with an increasingly aware supplier base, is increasing FCW’s risk exposure’.

**2.9** To both assess the scale of the problem and identify any common themes, we asked FCW to provide us with a list of the cases referred to in the Management Board paper. In response FCW told us that, while it could use e-mail correspondence to identify the cases referred to in the Management Board paper, it did not have, and did not believe that it needed, a readily available list, as none of the examples

had resulted in non-compliant procurements. The March 2011 paper was highly significant; it identified that FCW was operating at the lowest level in terms of best procurement practice and it formed the basis for the development of a new centralised approach to procurement. Given its significance, in our view FCW should have better collated the evidence base for the conclusions and proposals put forward in the Management Board paper.

**2.10** We did, however, review two significant procurements that FCW had already identified as requiring remedial action, to gain an understanding of the issues. We did not look more widely at other procurements, as FCW had already reviewed its own procurement processes.

**2.11** In 2008, we commended FCW on the way in which it had managed the wind farm procurement and recommended that it disseminate the lessons of this success to other procurements (for example, greater use of procurement expertise on tender evaluation panels). However, in both of the cases we looked at, leaving procurement to unqualified staff was an important element contributing to non-compliance with procedures (Case Studies 1 and 2).

#### Case Study 1 - Flaws in its tender process meant that FCW had to retract its tender award for work to build new forest roads

The 'new roads' contract was a framework contract to construct new forest roads, bridges, tracks and paths at two 'lots' – one in North Wales and one in South Wales. It was a joint procurement between FCW, Countryside Council for Wales, Environment Agency Wales and the Welsh Government, and had an estimated value per annum of £300,000 to £750,000, with a maximum value over the three-year life of the contract of £3 million. The contract was due to commence in April 2011.

The FCW had to withdraw two sets of invitation to tender documents, due to errors in the documents. When FCW appraised the tenders, some tenderers were disqualified as they had not completed parts of version 3 of the invitation to tender. However, these tenderers had already completed these parts once or twice before in the previous versions they had submitted. Following contract award, a number of complaints were received from unsuccessful tenderers and one in particular stated an intention to formally challenge FCW's decision.

The FCW told us that it sought legal advice, as it wished to stop what was a complex process. The legal advice concluded that there was a risk of successful challenge, should FCW continue with the contract award. The FCW subsequently retracted the contract award. The contract has now been successfully tendered.

The other significant issue we found was the lack of involvement by procurement staff at key points in the tender award process:

- As this was a high- value contract, the Forestry Commission Great Britain Head of Procurement signed the original documentation (including the invitation to tender). However, the team undertaking the procurement exercise (who were civil engineers/forest district staff and not procurement experts) amended the documents post sign-off by the Head of Procurement and sent these revised documents to bidders. It was these documents which contained errors and required FCW to reissue the invitation to tender.
- The scoring panel for assessing the tenders was made up solely of civil engineers and forest district staff, and did not include any procurement or finance staff.

The FCW carried out a workshop to identify the lessons it could learn from this case.

Source: Wales Audit Office



## Case Study 2 - A contract for security services exceeded its estimated three-year value within the first two years and did not fully comply with either OJEU<sup>8</sup> or FCW procurement procedures

This framework contract was for the provision of security services in South Wales, to protect plant and equipment from theft and damage, and to create a safer environment for contractors, to encourage a greater number of tenders for work on the publicly owned estate. The contract was for two years with an option of a one-year extension and an estimated contract value over three years of £900,000. As of February 2012, expenditure stood at £1.58 million, and thus less than two years into the contract expenditure already significantly exceeded the three-year contract value. The FCW has ended the contract at the break point (31 March 2012). The FCW told us that a new contract was let in October 2012.

The FCW's own review into this matter concluded that insufficient knowledge of the true cost of security provision had resulted in 'contract value and budget being set on an unreliable base', and subsequent to contract award there had been insufficient rigour in contract management.

As in the case of the tender exercise for the work to build new forest roads, the procurement exercise had been run by one of the Forest Districts, with inadequate procurement involvement at some key stages. The FCW took advice on the pre-qualification questionnaire from Forestry Commission Great Britain procurement experts, but there was no procurement or finance expertise on the tender scoring panel.

Other key problems identified with both the procurement and the management of the contract included:

- At the outset of this procurement, FCW's aim was to establish a framework contract. The FCW only specified the score needed to get onto the framework after it had received and scored all tenders. To reduce the risk of any perceived impropriety, FCW should have set the threshold for successful inclusion on the framework agreement prior to the bids being opened and evaluated.
- Only one bidder met the score needed to get onto the framework which meant that FCW were unable to run mini competitions between contractors, to ensure it got the best cost and quality. The FCW should have considered re-running the tender exercise to ensure it got the benefits it was seeking to achieve through a framework contract.
- The contract was based on a scale of rates per hour per member of security staff, but tenders did not provide an overall cost for undertaking the contract and there was no specification by FCW to do so. This approach left costs 'open ended', and exposed FCW to the risk (which subsequently materialised) that the actual cost far exceed the estimated reserve/contract value if actual hours worked are greater than originally estimated.
- The FCW did not comply fully with either OJEU or its own internal procurement procedures. The FCW did not, as required, send a notice to OJEU when it awarded the contract. The FCW's own guidance states that it is good practice for pre-qualification questionnaires to be opened by at least one member of staff independent of the procurement – this was not done, nor were all potential tenderers informed of the decision to extend the closing date.
- The FCW did not identify overspends in a timely manner. The Head of Finance and ICT was informed in September 2011 that spend from June 2010 to August 2011 was £808,000, although spend was scheduled to have been £300,000 per annum.

As well as carrying out a review into this specific case, in October 2011 the FCW Director sought assurance that financial controls are in place to monitor contract spend. It was reported to the November 2011 Management Board that all unit managers receive monthly budget control reports. However, given the overspend on this contract, this level of feedback is not sufficient to provide assurance that the controls in place are operating in practice, and that this is an isolated incident. More recently, recognising this, FCW has strengthened its processes for controlling contract spend. One of the functions of the newly introduced single procurement service is to use the monthly budget control reports to work with contract managers to manage spend.

Source: Wales Audit Office

<sup>8</sup> OJEU is the Official Journal of the European Union. When contracts for works, supplies and services exceed a specified threshold value, local authorities and other public organisations must advertise their details in this publication, calling for expressions of interest.

**2.12** Also, FCW's procurement planning has been hampered as it has not reviewed its procurement expenditure to identify trends and whether it is procuring goods and services in a way which optimises value for money. Where it has sought to review expenditure through the use of Government Procurement Cards, limited data in terms of the types of goods and services being purchased through these cards has prevented a full trend analysis with regard to spend. Although there have been some recent improvements in its use of such cards, and other improvements are being introduced:

- a** The FCW has rationalised the number of card holders from 231 in October 2011 to 136 currently.
- b** The FCW told us that, under its new Government Procurement Card contract, there is a better reporting package to allow for timely and accurate monitoring of trends in expenditure. We have not examined this contract.
- c** The FCW also told us that, from spend data derived from Government Procurement Card usage, Forestry Commission Great Britain is currently working to develop a series of embedded cards with specific businesses.

**In April 2012, FCW established a single procurement service which, if implemented effectively, should deliver the required improvements**

**2.13** As a result of the paper it received in May 2011, FCW established in April 2012 a centralised procurement function, at an estimated cost of £100,000 per annum. All procurement activity over £20,000 is now undertaken by a team of seven staff led by a qualified head of procurement. Two other members of the team are currently undertaking procurement training, one of whom should be qualified by the end of 2012-13.

**2.14** It is inevitable that it will take some time for these new arrangements to have an impact. But if implemented correctly they should reduce the risks associated with the absence of central coordination of procurement and procurement by inexperienced and unqualified staff. One of the priorities for the new service should be to develop an approach to measuring FCW's success in delivering its procurement strategy.



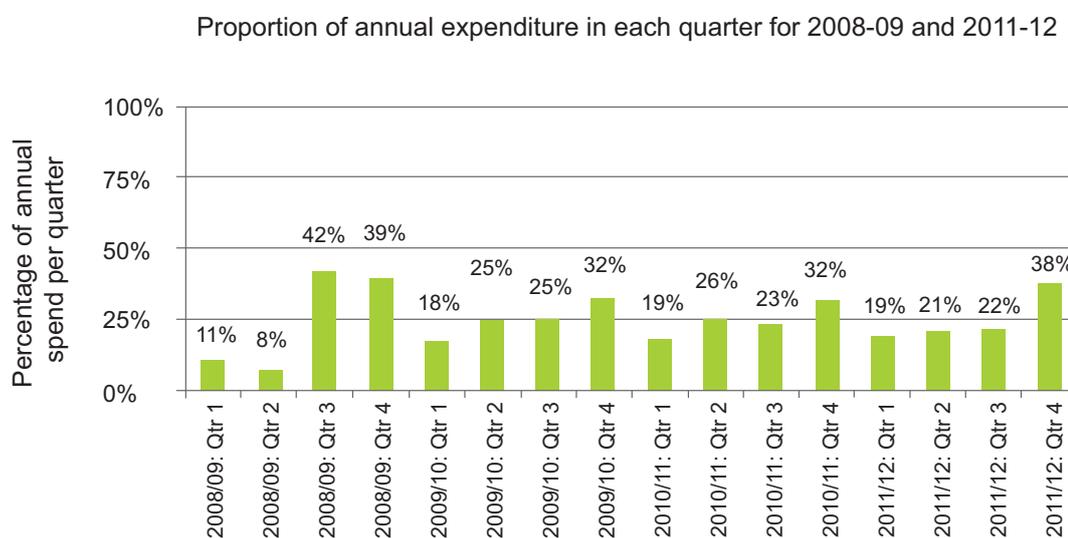
**The FCW is also making some progress in mitigating the risk of short-term decision making at year end with the allied risk of poor procurement**

**2.15** In 2008, we reported that FCW’s expenditure profile was weighted towards the latter part of the year (when it had a clearer understanding of its timber income). This created the potential for expenditure to reflect short-term decisions at the year end with the allied risk of poor procurement planning and consequently poor value for money. We also argued that this expenditure pattern was in part explained by the fact that FCW was not allowed to hold reserves; it had either to spend the funds available to it before year end or return them to the Welsh Government. In 2008-09, the

Welsh Government gave FCW the capacity to hold reserves. Given this change, we would not expect to see the same profile of expenditure as we found in 2008.

**2.16** Our analysis of the proportion of annual expenditure in each quarter since 2008 shows that although expenditure is still weighted towards the end of the year, the pattern is less pronounced than we found previously (Figure 7). The FCW told us that, due to the nature of its business, expenditure will continue to be weighted to some extent towards the year end, as planting and restocking takes place during the spring. It also told us that historically grant holders have tended to wait until year end before claiming grant monies from FCW.

**Figure 7 – The FCW’s expenditure profile continues to be weighted towards the latter part of the year, but to a lesser extent than when we reported in 2008-09**



Source: Wales Audit Office analysis of FCW data

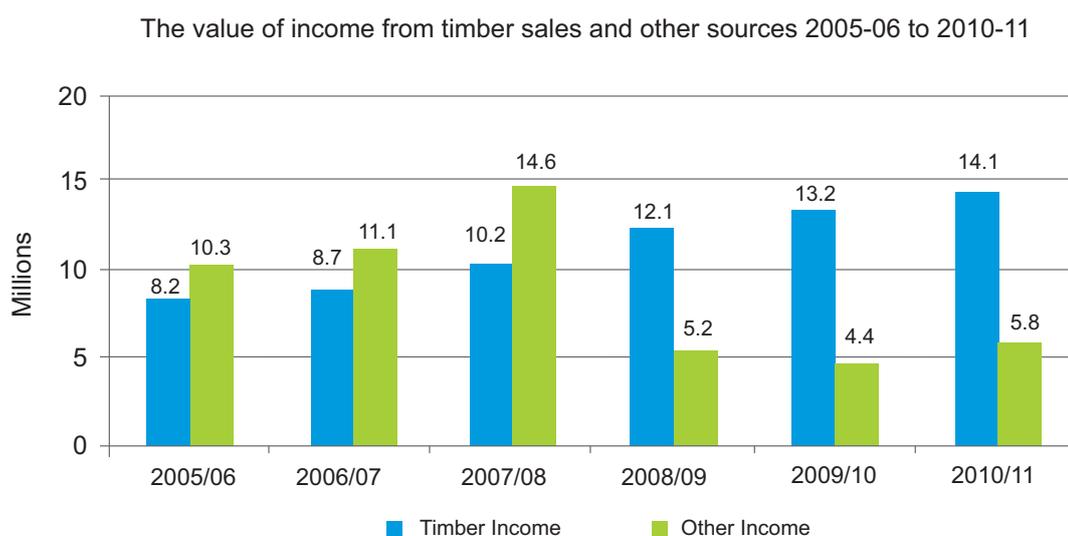
## Management of aspects of timber production and sales remains weak and FCW has not developed its resilience to the risk of falling timber income, but it is now making good progress in meeting the expectations of its timber customers

**2.17** Timber income represents a significant amount of FCW's income. In 2010-11, FCW's income from timber was £14.13 million (or 28 per cent of its total expenditure). It is therefore vital that FCW has robust processes to optimise income from timber sales and deliver its timber production plans.

**The FCW is now more reliant upon timber income as its income from other sources has declined since we reported in 2008**

**2.18** In 2008, we recommended that FCW diversify its income to make it less reliant on timber income and so more resilient to falling income from timber sales. Although timber income in 2010-11 was broadly comparable with timber income in the year we originally reported (£14.6 million and £14.1 million respectively), there were falls in 2008-09 and 2009-10 (Figure 8). The FCW also needs to diversify its income to deliver the Minister's vision for the future of the publicly owned estate in Wales. In February 2011, the then Minister for Rural Affairs directed FCW to 'deepen commercialisation' of the estate. That is, to develop its approach to generating income from the estate, particularly through renewable energy projects, but also through using the estate to support more recreational activities and as a base for forest holidays.

**Figure 8 – Since we reported in November 2008, FCW has become much more reliant upon timber income, as its income from other sources has reduced**



Source: Wales Audit Office



**2.19** However, since we reported in November 2008, FCW has become much more reliant upon timber income, as its income from other sources has reduced (Figure 8), due, FCW told us, to the end of European Union funded grant programmes. The FCW can point to examples of new income streams in recent years and to actions being taken to further diversify its income (Figure 9). Nevertheless, this income remains as yet small-scale compared to the income generated from timber production. The FCW told us that its scope to diversify its income is affected by factors such as lead-in times, the economic climate and legislation which constrains the kinds of activities it can undertake.

**2.20** In 2008, we also recommended that FCW develop clear contingency plans to deal with fluctuations in the timber market and carry out scenario planning to assess the opportunities and threats from falling or rising timber income. The FCW has not implemented either of these recommendations. Instead, it has

sought to make its income from timber more reliable, thus reducing the need, it argues, for contingency planning:

- a** long-term timber contracts give it a guaranteed long-term income and provide a cushion against short-term fluctuations in the timber market; and
- b** the FCW now provides 10 per cent of its timber to the wood energy market, and prices in this market tend to fluctuate less than prices in FCW's traditional market (ie timber for construction).

**2.21** The FCW also told us that the lack of contingency and scenario planning had not prevented it from responding effectively to emerging threats to timber income. It cited the actions it had taken in response to the recession and to an outbreak of larch disease. These are, however, reactionary measures rather than a proactive approach to developing contingency plans and scenario planning.

### **Figure 9 – The FCW generates income from a range of activities other than timber production, and is committed to further income diversification**

Examples of FCW's commitment to diversifying its income base include, but are not limited to, the following initiatives. The FCW has:

- Entered into a number of access agreements to permit access across the forest estate to enable wind farm development, which could generate in excess of £10 million over a 25-year period. These access agreements, FCW told us, would also reduce its road building costs, as it would be able to use the new access roads constructed at the developers' own cost.
- Identified new markets for its timber products; it is several years into a Biomass Contract in Port Talbot for 66,000 tonnes a year with the price linked to the price of electricity.
- Published a Minerals Strategy, to form the basis for significant and long-term mineral projects.
- Generated a one-off payment of £300,000 as a 'tipping fee' (where contractors pay FCW to tip unneeded stone on the estate) and is looking to develop this into a 10-year contract.
- Commenced a procurement exercise to offer hydroelectric schemes to the private sector which will generate some income.
- Opened discussions with Woodfuel Wales as the demand for wood for fires has increased again.
- Appointed a Market Development Officer to help improve the marketing of FCW timber, particularly for use in biomass, firewood and other niche markets.

Source: Wales Audit Office

## Key aspects of FCW's approach to selling timber are not sufficiently evidenced or monitored

- 2.22** The FCW last reviewed its *Timber Marketing Strategy* in 2010. The strategy covers the five-year period from 2011. The FCW told us that it measures the success of this strategy through progress against two of its corporate performance measures: Gross Value Added in the forestry sector and proportion of timber harvested in Wales. However, the timber strategy has a range of objectives which are not all directly linked to these corporate measures, for example, 'securing best value from the sale of timber', and for which FCW has not set performance indicators.
- 2.23** The strategy also sets out FCW's approach to selling timber through direct production and standing sales and through short-term and long-term contracts. At the time of our 2008 work, the balance of sales through direct production to standing sales was 50:50. However, since then FCW has changed its approach and its position is now that the exact proportion of timber sold through each method may vary between 40 and 60 per cent.
- 2.24** In 2008, we recommended that FCW assess the costs and benefits of changing the balance of each method. The FCW has identified the various factors affecting the profitability of the two methods. We welcome FCW's work on the profitability of the two methods. However, it needs now to ensure that the results of this exercise are fed into a wider cost-benefit analysis to support decisions about the appropriate split between direct production and standing sales. We would also like FCW to formally benchmark the profitability of the balance it has chosen to adopt between direct production and standing sales with profitability achieved by other countries. (Although, we also recognise FCW's position that its continued use of both direct production and standing sales is informed by more than just

financial considerations around the relative profitability of either method.)

- 2.25** We accept that long-term contracts have a range of benefits, both to FCW and to its customers. However, there is not yet a well-evidenced basis for the balance of long-term contracts and short-term contracts. (The FCW has also adopted the position that the exact proportion of timber sold through long-term and short-term contracts may vary between 40 and 60 per cent.) The FCW should evaluate the success of the first round of long-term contracts it has signed, as they come to an end from 2013-14 onwards, and use the results of this evaluation to underpin future decisions about the appropriate split between long and short-term contracts.

## There continues to be weak compliance with procedures for managing extensions to timber contracts

- 2.26** In 2008, we reported examples of where contractors had extracted more timber than set out in the contract and examples of where timber had been extracted after the contract end date. In 2009, FCW issued revised guidance setting out the procedures staff needed to apply to authorise timber extractions over contract levels. We reviewed the guidance and tested a sample of the contracts which had exceeded the agreed contract volume to see whether the revised procedures were being complied with.
- 2.27** We found that the guidance was not clearly written and was incomplete, for example appendices two and four are incomplete. We also found that the revised authorisation procedures were not operating in practice. Our testing found that in the majority of cases, where contractors were extracting more timber than set out in the contract and extracting timber after the contract end date, FCW staff were not implementing procedures for authorising such extensions (Figure 10).



**2.28** In 2008, we suggested FCW carried out a cost-benefit exercise on timber contracts to ascertain the effect on income of both extending contract end dates and extracting timber beyond the volume. It has not done this. The absence of a cost-benefit analysis, together with non-compliance with its own guidelines, means that FCW does not have a

robust basis for extending contracts. Nor can it be confident that its approach to extending contracts is delivering value for money, as it does not know the effect on its income of not renegotiating contracts, but rather allowing contractors to extract timber after the contract end date.

### Figure 10 – Results of audit testing of contracts signed in 2009-10 and 2010-11

We tested a sample of timber contracts which had gone over volume to assess compliance with the revised Timber Contracts Guidance. The revised guidance was not approved by the Head of Wales Harvesting and Marketing (the FCW division with responsibility for managing timber sales) until September 2010. However, the revised guidance was rolled out to staff in January 2009. Therefore, as staff were working from this guidance from January 2009, we have tested the implementation of the guidance on sales contracts signed in both 2009-10 and 2010-11.

From a list of all timber sales contracts signed by FCW in 2009-10 and 2010-11, we tested 15 from each year which had exceeded the specified contract volume. We then identified that 22 of these 30 contracts had also gone beyond the contract end date. We therefore used this group of 22 contracts to test whether FCW had complied with its own procedures for authorising extensions to contract end dates.

#### **Compliance with procedures for allowing more timber to be extracted than agreed in the contract**

Twelve of the 30 contracts tested were long-term contracts and were yet to complete. According to FCW's procedures controls on extracting timber in excess of the agreed contract only apply after the end of the contract. So we could not test whether FCW had complied with its own procedures for managing these 12 contracts.

Sixteen of the remaining 18 contracts were not managed in accordance with agreed FCW procedures, which require a formal extension for extraction of timber over 20 per cent of the agreed contract volume. The remaining two contracts did not exceed the 20 per cent threshold and so did not require any formal sign-off.

#### **Contract closure**

The FCW's procedures require a contract closure form to be completed. Where necessary it should include the reasons why a contract has been allowed to extend beyond the contract end date and agreed volume, and lessons learnt. Of the 30 tested<sup>9</sup>:

- six did not have a contract closure form on file; and
- 24 had a contract closure form on file, but these did not include reasons for extensions to time/volume or lessons learnt.

#### **Compliance with procedures for allowing timber to be extracted beyond the contract end date**

Seventeen of the 22 contracts where timber was extracted beyond the contract end date did not have a formal extension in place, as required by FCW procedures, even though some extensions granted were significant. One contract was extended six times, taking the contract 29 months beyond the original contract end date. In a further three cases, while there were extensions on file, these were not agreed in a timely manner, as they were retrospective and put in place after timber had been harvested beyond the contract end date.

Source: Wales Audit Office

<sup>9</sup> Although the long-term contracts we tested had not closed, under FCW's procedures there should be a contract closure report for each year of these contracts.

### **The FCW is making good progress in meeting its commitments to its timber customers**

- 2.29** As part of the 2008 study, we set up a website soliciting views about the operations of FCW. Nineteen of the 28 public submissions to the website called upon FCW to improve the way in which it produced timber, managed the timber market and reflected concerns about the reduction in timber supply and the adequacy of, and adherence to, production forecasts.
- 2.30** In order to assess progress in this area, we assessed FCW's performance in delivering its commitment to the timber industry between 1 April 2006 and 31 March 2011. For each of these years, FCW guaranteed to bring 770,000 cubic metres of timber to the market. We found that FCW did not deliver this volume in three of the five years, but over the full five-year period FCW met (and slightly exceeded) its commitment to the timber market. Over the full five-year period FCW produced 3.89 million cubic metres of timber, against its commitment to produce 3.85 million cubic metres of timber. The FCW told us that it would expect to see annual variations in production, as it does not have complete control over when timber is harvested from the estate. For example, weather conditions have an impact on the exact timing of work. Moreover, we found that the annual variations were not viewed negatively by FCW's timber customers, as they told us that FCW is performing well in terms of meeting its annual timber production targets.

### **Although FCW has made progress in key aspects of its grant management, this has not always been timely, nor has FCW yet achieved all of the desired outcomes**

**The FCW has tried to improve community engagement in grant schemes but in one important case, intended outcomes of improved community engagement and long-term public access have not yet been achieved and FCW's options are limited due to weaknesses in the contract**

- 2.31** In 2010, the Wales Audit Office reported on its examination of FCW's award of £502,000 to the not-for-profit organisation Calon yn Tyfu Cyf (known as Calon) for the purchase of Ffynone and Cilgwyn woodlands. This award was made under FCW's Cydcoed grant programme. The subsequent 2011 report into the same issue by the Public Accounts Committee found that the structure of the Cydcoed scheme was such that there was a 'significant risk' that the local community would not be adequately represented in the grant-giving process.
- 2.32** In August 2011, FCW issued two new guidance documents for staff aimed at ensuring adequate community engagement takes place before it approves grant applications. No new grants have come on stream since the guidance has been issued, and consequently we have not been able to assess compliance with this revised guidance.



**2.33** The FCW has also worked with Calon, as recommended by the Wales Audit Office in 2010 and by the Public Accounts Committee in 2011, to improve long-term public access<sup>10</sup> to and public engagement in decision making for the Ffynone and Cilgwyn woodlands. Despite FCW's actions, the outcomes sought by our recommendations have not yet been achieved (Figure 11). However, the conditions of FCW's

grant to Calon constrain FCW's ability to act alone, and mean that it can do no more than encourage Calon to engage with the community and to give the community long-term access to the woodland.

### Figure 11 – Progress to date in taking forward the audit recommendations relating to the Ffynone and Cilgwyn woodlands

Together, the Wales Audit Office and Public Accounts Committee recommended that FCW:

- work with Calon to explore options for:
  - greater community involvement in decision making for the woodland to include community representation on Calon's board, for example, as non-executive directors; and
  - longer-term protection of the asset for the local community and public purse.
- work with Calon to secure designation of the greatest possible portion of Ffynone and Cilgwyn woodlands under the Countryside and Rights of Way Act 2000 at the earliest possible opportunity; and
- continue to encourage community involvement in the decision making surrounding the woodland by all means possible in the hope and expectation that the community reciprocates.

This study found that the following progress had been made against these three recommendations.

#### Protecting the Ffynone and Cilgwyn woodlands as a long-term community asset

Under the Countryside and Rights of Way Act land can be 'dedicated' to allow public access on foot in perpetuity. However, the land cannot be dedicated as access land without Calon's permission. The FCW has been in regular contact with Calon to help it designate the land. We found evidence of FCW providing Calon with advice on how the designation process works and seeking updates from Calon on timescales for designation. This was mainly through phone calls, emails and letters, but FCW also met with Calon on 27 September 2011 and on 29 May 2012 to discuss its progress.

Despite these actions, designation has not occurred. Both FCW and Calon told us that this was due to boundary disputes. In March 2012, the Adjudicator to the HM Land Registry resolved one boundary dispute, but Calon told us that two other boundary disputes remained. Calon told us also that it has now appointed solicitors to take forward the dedication work, once the remaining boundary disputes have been resolved.

#### Community involvement in the decision making surrounding the woodland

The FCW is seeking to achieve greater community engagement in the decision making about the Ffynone and Cilgwyn woodlands through two main vehicles: certification of the woodland under the Forestry Stewardship Scheme and securing community representation on the Calon board.

#### Certifying the woodlands under the Forestry Stewardship Scheme

Certification of the woodland has not yet been achieved under the Forestry Stewardship Scheme. However, FCW is supporting Coed Lleol (the Independent Community Woodlands Association funded by FCW) to work with Calon to certify the woodlands. Calon told us that it is intending to undertake the full assessment needed to join the scheme in 2013. Calon told us also that it had already received a pre-assessment visit and was now working through the areas highlighted by that visit.

Source: Wales Audit Office

<sup>10</sup> The FCW told us that, prior to its grant to Calon to purchase the woodland, none of the woodland was open, except where there were public rights of way. Under the conditions of FCW's grant award, all of the woodland is now open to the public, except as and when health and safety considerations require areas to be closed to public access. However, as we concluded in our 2010 report *Forestry Commission Wales Public Funding of Ffynone and Cilgwyn Woodlands*, the conditions of FCW's grant do not guarantee long-term community use of the woodland, ie beyond the twenty years covered by the contract with Calon. The FCW stressed to us that its contract with Calon did not differ from its contracts with other Cydcoed grant recipients, as no other Cydcoed grant holder has been required to guarantee public access beyond the period covered by the contract.

## Figure 11 cont. – Progress to date in taking forward the audit recommendations relating to the Ffynone and Cilgwyn woodlands

### Community representation on the Calon board

On 22 March 2011, Councillor John Davies wrote on behalf of Manordeifi Community Council to the FCW Director, copied to Calon, with three nominations for non-executive directors to represent the local community on Calon's board. Actions taken by FCW staff in response include telephone discussions with Calon, and writing to the Community Council referring it to Calon's existing procedures for joining the board. In this letter FCW suggested that the Community Council should contact Calon directly to discuss these requirements, and reiterated that FCW had no powers to force Calon to accept additional non-executive board members.

During this study, the Ffynone Woodland Protection Group (a local interest group) expressed to us its continuing frustrations with Calon's procedures for becoming a board member, and its view that the Calon board still does not sufficiently represent the local community. It remains the case that, as we reported in 2010, Calon is so constituted that it does not allow for non-executive directors on its board. (Calon is so constituted that only members of the Calon co-operative can become board members, and only those working 30 or more hours per week for the co-operative are eligible to join it.) In response, Calon told us that our recommendation that it appoint non-executive directors to its board was 'problematic' for it. It remains Calon's view that as a 'workers co-operative' its board should comprise co-operative workers solely.

The FCW itself told us that it will continue to encourage community residents to consider joining the co-operative, as a route to becoming a member of the Calon board, whilst also encouraging Calon to relax their requirement that only members of the co-operative can become board members.

Source: Wales Audit Office



**Following critical audit reports and the withholding of grant monies by the Welsh European Funding Office, FCW has now improved the control framework for its Wood Energy Business Scheme**

**2.34** Every year, the Wales Audit Office reviews FCW's management of the grant scheme called the Wood Energy Business Scheme. Audit work in 2009-10 identified serious weaknesses with the management of the scheme, which we reported to FCW.

**2.35** Our 2011-12 audit work on the scheme concluded that 'as a result of the significant effort made by FCW staff, improvements in the control framework have occurred. It is vitally important that the progress made in the latter half of the year continues in the coming periods.'

**2.36** While we welcome this improvement, it is clear that achieving this has been a challenge to FCW, and we remain concerned about FCW's effectiveness in using audit findings to secure continuous improvement. The following two examples illustrate our concerns:

**a** Our audit work relating to the Wood Energy Business Scheme in 2010-11 identified a number of issues that we had previously highlighted to FCW in 2009-10, and similar issues were identified in our August 2010 report on Public Funding of Ffynone and Cilgwyn Woodlands. These issues were reported to the Welsh European Funding Office (which part funds the scheme) and resulted in the Welsh European Funding Office requesting additional audit work and withholding payment, until the additional work confirmed positive direction of travel by FCW.

**b** As set out in our 2010-11 Management Letter to FCW, aside from the similarities to the issues raised in the Ffynone and Cilgwyn Woodlands report, we consider that many of the issues raised in regard to the Wood Energy Business Scheme have been reported to FCW on audits of previous grant schemes, such as Objective 1 schemes. The Management Letter concluded that 'FCW does not appear to learn the lessons from previous audit findings and effectively roll these out across the organisation for shared learning and to ensure that such issues are not repeated'. We did not raise these concerns again in our 2011-12 Management Letter to FCW.

**Where FCW has sought to learn lessons from its implementation of its Better Woodlands for Wales grant scheme, it has not done this as effectively as it might have done**

- 2.37** In our 2008 report, we recommended that FCW develop a series of performance indicators for its Better Woodlands for Wales grant scheme which measured and reported progress against outcomes rather than performance against aspects of process, such as the area of woodland covered by the scheme and expenditure.
- 2.38** Since then, FCW has established two performance indicators for the scheme linked to the delivery of two of its nine corporate priorities: woodland area in sustainable management; and woodland area managed without clearfelling. However, despite this progress it has still not developed a suite of indicators that cover the full range of the intended objectives of this scheme. Even though the scheme was closed in December 2010 to new applicants, we would have expected FCW to develop indicators to assess whether the legacy agreements were delivering the full range of intended objectives and as part of providing assurance that its use of grant funding was providing value for money.
- 2.39** In 2008, we recommended that, to improve take-up of the Better Woodlands for Wales scheme, FCW should survey grant applicants to identify trends in uptake, stakeholder perceptions and areas for improvement.
- 2.40** The FCW decided not to survey applicants and other stakeholders, although it did make a number of adjustments to improve the scheme and the application process. For example, it: simplified some of the scheme rules (to make applications less onerous, particularly for smaller woodlands); amended the IT system; and provided additional training for its staff and the external consultants it employed to support applicants.
- 2.41** The FCW told us that it had tested the proposed changes at stakeholder meetings, and in its view these changes had been successful as take-up was no longer a problem and the scheme budget was fully spent. It is our view that had FCW more systematically gathered the views of stakeholders it would have been in a better position to simplify the grant application process in a way which met the needs of applicants. This view is supported by evidence from the Mid Term Evaluation of the Wales Rural Development Plan, which found that in 2010 the grant application process remained a concern with grant recipients and other stakeholders. Interviews with 26 Better Woodlands for Wales grant recipients and 12 stakeholders found that the grant application process remained an issue. Thirty of the 38 interviewees stated that the top lesson FCW needed to take away was to ‘simplify the grant application process’.



## Appendix 1 - Our methods

### Our methods

This follow-on study originates from a recommendation made by the National Assembly's Public Accounts Committee in November 2010 that the Wales Audit Office test the implementation by FCW of all recommendations made by both the Auditor General and the Public Accounts Committee. In carrying out our examination of FCW's implementation of audit recommendations we used the following methods:

#### Document review

This study relied heavily upon the review of a wide range of internal FCW documents relating to the following key business areas: corporate and business planning; strategy and communications; workforce planning; financial management; corporate and individual performance management; risk management; asset management (including documents relating to the management of the publicly owned estate); and grant management.

We supplemented this work with a review of Welsh Government policy and strategy (using sources such as the *Wales Woodlands Strategy*, *The Assembly Government Woodland Estate Research Project*, a Ministerial statement on the future of the woodland estate and minutes from discussions held by the National Assembly about the future direction of forestry in Wales). We also reviewed documentation on the merger of FCW, the Countryside Council for Wales and the Environment Agency Wales.

We also drew upon other audit work carried out by the Wales Audit Office, specifically work carried out by financial audit staff on the implementation by FCW of the Wood Energy Business Scheme.

To check whether FCW staff were implementing internal guidance for extending timber contracts, we reviewed relevant documentation, but also tested a sample of 30 timber contracts. We also reviewed the files relating to two procurement exercises (these procurements are considered in [Case Studies 1](#) and [2](#) in the main report).

#### Data analysis

Where it would help us to assess progress in implementing audit recommendations, we updated and reanalysed the financial and performance data we had previously collected as part of our 2008 report *Operations of the Forestry Commission Wales*. As in 2008, we used this data to look at such issues as patterns of income and expenditure, performance against timber production forecasts and procurement practices.

## Semi-structured interviews

We carried out the following semi-structured interviews:

- FCW staff – interviewees were primarily senior staff at FCW Management Board level. Where appropriate, we also interviewed other staff involved in planning and overseeing delivery within a range of key business areas (for example, timber production). We also had discussions with a small number of operational FCW staff delivering specific projects.
- Representatives of FCW's main timber customers.
- Welsh Government officials working on the merger of FCW, the Countryside Council for Wales and the Environment Agency Wales and responsible for managing aspects of FCW's relationship with the Welsh Government.
- A representative of the Ffynone Woodland Protection Group. The group also provided us with written evidence on its views of FCW's progress in securing greater public access to, and greater public engagement in decisions relating to, the Ffynone and Cilgwyn woodlands.



## Appendix 2 - The merger of FCW, the Countryside Council for Wales and the Environment Agency Wales

The FCW currently operates as both the forestry department of the Welsh Government and as a part of the Forestry Commission Great Britain. These arrangements will change in April 2013 when FCW, the Countryside Council for Wales and the Environment Agency Wales merge to form Natural Resources Wales.

In January 2010, the Welsh Government started working with stakeholders to develop a new Natural Environment Framework for Wales. The purpose of the framework is to set out how to enable Wales' land and water to deliver long-term well-being reflecting the guiding principle of sustainable development. In particular, the framework will aim to ensure that there is an integrated approach to the management of the environment, placing a particular focus on the value of ecosystems.

In a written statement to the National Assembly on 6 July 2010, the Minister for Environment, Sustainability and Housing stated that there was a need to consider whether the current arrangements for delivering the Assembly Government's environmental policies would be appropriate to deliver future needs, in line with the framework. This led to a review which undertook a comparison of different delivery options, ranging from no change to the establishment of a new environmental body comprising the functions of the Countryside Council for Wales, the Environment Agency Wales and FCW. The resulting Feasibility Study concluded that the establishment of a single body involving all three had the potential to provide the greatest benefits.

The Minister then authorised further, more detailed work to be undertaken on the option of establishing a single environmental body for Wales. Subsequent to the reporting of this work, in November 2011 the Environment Minister announced the decision to proceed with establishing a single body for Wales.

## Appendix 3 - Grant schemes operated by FCW

This report covers a number of grant schemes operated by FCW, although some of these grant schemes are now closed.

### **The Cydcoed grant scheme**

This scheme targeted the most deprived communities in Wales and those where there was limited or no access to community green space. In these communities the programme aimed to: make existing woodland spaces more accessible; develop additional woodland spaces; and foster community involvement in the sustainable development of woodlands. The scheme ran in two phases between 2001 and 2008.

### **Wood Energy Business Scheme 2**

This scheme provides capital grant support to businesses for woodfuel heating systems and processing equipment to develop the sustainable and renewable wood heat market across Wales. The current scheme runs from 2009 to 2013; the previous scheme ended in 2008.

### **Better Woodlands for Wales**

The FCW launched this scheme in 2007, to provide private woodland owners with grants for: social forestry; the protection of native woodlands; and the more traditional economic aspects of forestry. At the core of the Better Woodland for Wales scheme was a five-year management plan which had to comply with the minimum standards of the UK Woodland Assurance Standard. The scheme was jointly funded by FCW and the European Union.

The scheme was closed to new applicants in December 2010. However, grants are still being paid out currently on contracts signed previously. The FCW signed the last contract in February 2012, although Better Woodlands for Wales remains a legacy scheme as grants are still being paid out against the signed contracts. With the closure of Better Woodlands for Wales, responsibility for making and managing grants to private owners to create and enhance their woodlands has passed from FCW to the Welsh Government, under the Glastir agri-environment scheme.

In January 2012, Glastir replaced the existing five agri-environment schemes operating in Wales. Grant holders will be paid for delivering specific environmental goods and services aimed at: combating climate change; improving water management; and maintaining and enhancing biodiversity. Glastir includes a 'Woodland Element', which is designed to support land managers in maintaining and/or creating new woodlands.



## Appendix 4 - The main responsibilities of the key delivery units within FCW

### Forest Districts

There are four Forest Districts across Wales, with responsibility for:

- ensuring forest design plans have been developed and approved for the Welsh Government woodland estate;
- consulting on forest design plans;
- ensuring that FCW meets its legal responsibilities as a land manager;
- a wide range of estate management issues (for example, ensuring that fences on the Welsh Government woodland are adequately maintained, dealing with fallen trees); and
- developing and managing public access to the Welsh Government-owned woodlands through a variety of initiatives, such as establishing and maintaining mountain bike routes and encouraging use of the forest as an outdoor classroom.

### Wales Harvesting and Marketing

Wales Harvesting and Marketing was set up in 2000 and is based at FCW's head offices in Aberystwyth, however there are also Wales Harvesting and Marketing staff based in each of the four Forest Districts with responsibilities for:

- Developing contracts with the timber industry for both the harvesting of land, and for selling timber products.
- Managing FCW's own harvesting operations.
- Developing the 'U18' or five-year production plan, which identifies which areas of the forest are to be harvested, using what method and when. The 'U18' production plan is based on forest design plans developed by the Forest Districts.
- Working with colleagues across Forestry Commission Great Britain (for example, as part of the Great Britain-level Operational Services group).
- Providing timber income forecasts, and tracking trends in timber prices.

### Wales Silvicultural Operations

Wales Silvicultural Operations staff are co-located with forest district staff and have responsibilities for

- Restocking (or replanting) of Welsh Government-owned woodlands, including working with the Forestry Commission Great Britain Plant and Seed Supply branch to secure appropriate stock. The level of annual restocking is determined by amount of land harvested by Wales Harvesting and Marketing. Wales Silvicultural Operations needs to ensure that the land bank (or the area of Welsh Government woodland awaiting replanting) should not exceed the average annual area felled by more than a factor of 3.5.
- Providing advice to district planning officers, as part of the Forest Design Plan process (for example regarding types of species to be planted).
- Working with colleagues across Forestry Commission Great Britain (for example, as part of the Forest Management Officers Group).

Source: Wales Audit Office

## Appendix 5 - Indicators for which FCW has not set targets

Business indicators for which FCW has not set three-year targets		
Business area	Indicators	Comments
Proportion of posts identified for Welsh language competence with appropriately skilled staff in post	<p>No target has been set for the single indicator used to track this business measure:</p> <ul style="list-style-type: none"> <li>to increase the percentage of FCW posts filled with staff with required Welsh skill level.</li> </ul>	<p>The 2009-2012 target was to 'identify the proportion of posts with the appropriate competency and fill gaps from 2009 onwards'. The target is poorly worded, as it does not quantify the pace at which FCW would expect to 'fill gaps' over 2009-2012.</p> <p>The FCW told us that it needed first to establish how many posts were filled by staff with the required level of Welsh, before identifying a realistic rate of change.</p>
Business sustainability	<p>Targets have not been set for two of the four indicators FCW is using to track this business measure:</p> <ul style="list-style-type: none"> <li>increase in the percentage of waste recycled from the 2008 baseline; and</li> <li>decrease in the amount of waste produced from the 2008-09 baseline.</li> </ul>	<p>We are not clear as to why FCW has not set a target for increasing the percentage of waste it recycles. It has baseline data for 2008-09.</p> <p>The FCW did not have baseline data on the amount of waste it produced in 2008-09.</p>



Corporate performance indicators for which FCW has not set three-year targets		
Corporate performance measure	Indicator	Comments
Woodland area managed without clearfelling	<p>No target has been set for one of the three indicators FCW is using to track this corporate performance measure:</p> <ul style="list-style-type: none"> <li>area outside of the publicly owned estate managed by Continuous Cover Forestry or under transformation to Continuous Cover Forestry.</li> </ul>	<p>The FCW had intended to use information collected through the Better Woodlands for Wales grant scheme to establish a baseline figure, to monitor trends and subsequently set a target. However, before FCW could complete this process the decision was taken to close the Better Woodlands for Wales scheme.</p> <p>The FCW has told us that since the Better Woodlands for Wales scheme has been discontinued, it will be looking at using the Glastir scheme to collect information on the area of woodland managed without clearfelling, once the scheme comes online in 2013.</p>
Tree diversity in non-native woodland	<p>Targets have not been set for two of the three indicators FCW is using to track this corporate performance measure:</p> <ul style="list-style-type: none"> <li>proportion of non-native woodland with one, two, or three or more species; and</li> <li>mean number of species in non-native woodland in Wales.</li> </ul>	<p>The FCW told us that it had not set targets for these two indicators as they are awaiting baseline data from the Great Britain National Forest Inventory, which will be available in 2014.</p>
Level of woodland and timber-related enterprise	<p>Targets have not been set for one of the five indicators FCW is using to track this corporate performance measure:</p> <ul style="list-style-type: none"> <li>Gross Value Added from small businesses</li> </ul>	<p>The FCW told us that it could not set a target for this measure, as reliable baseline and trend data on the Gross Value Added from small business has proved difficult to secure.</p> <p>The FCW is considering whether to adopt another indicator. It has collected data looking instead at trends in the number of employees in forestry businesses. This data can be broken down according to the size of the business.</p>
Native woodland extent	<p>Targets have not been set for one of the four indicators FCW is using to track this corporate performance measure:</p> <ul style="list-style-type: none"> <li>area of native woodland.</li> </ul>	<p>The FCW told us that it had not set a target for this indicator as it is awaiting baseline information from the National Forest Inventory, which will be available in 2014.</p>
Native woodland condition	<p>No target has been set for the single indicator used to track this corporate performance measure:</p> <ul style="list-style-type: none"> <li>proportion of native woodland in favourable/recovering condition.</li> </ul>	<p>The FCW told us that it had not set a target for this indicator as they are awaiting baseline information from the National Forest Inventory, which will be available in 2014.</p>

Source: Wales Audit Office

