



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

**Y Pwyllgor Archwilio
The Audit Committee**

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

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

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

Aelodau Cynulliad yn bresennol
Assembly Members in attendance

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

Eraill yn bresennol
Others in attendance

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

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

Karl Gomila	Dirprwy Glerc Deputy Clerk
John Grimes	Clerc Clerk

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

Ymddiheuriadau a Dirprwyon Apologies and Substitutions

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

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

1.31 p.m.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

1.40 a.m.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

1.50 p.m.

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

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

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

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

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

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

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

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

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

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

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

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

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

2.00 p.m.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

2.10 p.m.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

2.20 p.m.

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

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

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

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

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

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

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

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

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

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

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

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

2.30 p.m.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

2.40 p.m.

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

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

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

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

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

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

2.42 p.m.

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

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

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

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

2.43 p.m.

**Cynnig Trefniadol
Procedural Motion**

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

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

[121] I do not see any objection.

*Derbyniwyd y cynnig.
Motion carried.*

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