

FCS Customer Representative Group, 1 December 2009

Discussion Paper: Grant Aid for Woodland Creation and Management in Scotland– 2014 – 2020

1.0 Background: Although we are not yet half way through SRDP 2007 – 2013 it is important that we start to look at we want to have delivered in the next Rural Development Plan for Scotland. We may even want to consider whether we want support for woodland management and creation to be within the scope of the next SRDP.

This paper is designed to stimulate discussion and does not contain any definite proposals. It is anticipated that discussion on this topic will continue into 2010 with a range of stakeholders.

2.0 Assumptions: Some basic assumptions are made at this early point in considering the content and delivery of grant aid for 2014 – 2020;

- The delivery of the Scottish Forestry Strategy outcomes and targets will be our primary, but not exclusive, focus over this period.
- We will be operating in a period of financial constraint across public sector expenditure in Scotland.
- We will attach high priority to the continued allocation of around £20m national funding annually for grant aid focussed on SFS delivery.

3.0 Elements of Delivery in the 2014 – 2020 period: It is helpful to breakdown the discussion of the next SRDP period in to themes;

- Which activities do we want support through grant aid and what proportion of the total available funding should be allocated to each activity?
- How much total expenditure is made available for the activities which we support through grant aid?
- What delivery mechanisms do we employ to distribute and account for the grant aid we make available.

3.1 Which activities should we support? The obvious starting point for discussing this is to look at the range of activities currently supported in SRDP 2007 – 2013.

- *Should we add to the list of activities currently supported or abandon the support of some of them?*

At present the delivery of grant aid in SRDP is divided between support for new woodland creation and support for the management of existing woodland including regeneration. Almost all of this support is justified as paying for environmental non-market benefits which are enjoyed widely by the population of Scotland.

- *Is the focus of grant support on environmental non-market benefits the right one for the future?*

At present our clear priority in grant support is for the creation of new woodland.

- *Is it appropriate that we carry woodland creation forward as the top priority into the next SRDP?*
- *As a consequence should we explicitly ring fence / limit the proportion of our annual grants budget which is available for woodland management / regeneration?*
- *If we do ring fence part of our grant spend for woodland regeneration / restructuring what should we do if demand for grant aid exceeds the available funding?*

3.2 How much total funding is made available for the woodland creation and management activities which we support with grant aid?

FCS currently has a budget provision of around £21m per annum for forestry grants. In addition Scottish Government have an annual budget provision of around £5m per annum which is to pay for Farmland Premium type payments. This funding is available to pay for all new expenditure in a financial year as well as legacy grant commitments made in previous years. As well as the £26m of *national* funding we are able to claim a contribution from the EC call *co-financing*.

We have adopted an ambitious target for the creation of woodlands using grant aid (8,000ha per annum) and the recent adoption of the Scottish Climate Change Action Plan has pushed that target up to an aspiration of 12,000ha each year.

Our financial projections indicate that if we were to achieve a steady 8000 ha / annum rate of woodland creation, assuming current payment rates and current proportions of planting models used, then after 6 years gross annual expenditure would plateau at around £30m. Any annual expenditure on woodland management would need to be in addition to this.

- *Is £26m National funding per annum sufficient for woodland creation and woodland management in the period 2014 – 2020?*

At present, and for many years previously, we have benefited from the EC part financing our grant payments. This is known as *co-financing* and has the obvious effect of making *National* funding go further. At present (2010) payments within Rural Priorities receive 50% co-financing but we expect that this will reduce to about 30% by the end of the current programme.

We do not know what level of *co-financing* will be available in the next SRDP period. However, if we assume 30% *co-financing* carries on into the next SRDP then the loss of *co-financing* would represent an annual reduction of £11m available to woodland owners / managers based on *National* funding of £26m each year.

If we conclude that the administrative burden imposed by operating an EC approved Rural Development Programme is disproportionately large compared to the financial benefit from *co-financing* we could elect to provide grant payments for woodland management and woodland creation outside the SRDP. The legal basis for making these payments, from an EC perspective, would be through an application for an approved State Aid. As a generalisation, the Rural Development Regulation in force at the time of application for the State Aid would be used as the reference point by the

EC in deciding whether or not the proposed activity and proposed level of support was acceptable in terms of EC competition law.

The benefits of providing grant payments under State Aid cover would all centre around the assumption that the burden of administration would be significantly lower. The quantification of this reduced burden is very difficult and it would be important to avoid making a superficial analysis of savings which over-estimates the size of the savings by failing to recognise the significant administrative burdens which are imposed by domestic requirements to account properly for public expenditure.

Under the current situation it is beyond doubt that any move to provide grant aid as a state aid would require FCS to make significant new capital expenditure on a new case management system.

- *Do we need to call upon Co-financing from the EC in the period 2014 – 2020 in order to have available sufficient gross funding to deliver our targets / aspirations for woodland creation and management?*
- *Do we believe that the reduction in administrative burden, consequential to opting out of delivery through and EC approved Rural Development Plan, would outweigh the loss of funding from Co-financing?*

3.3 What delivery mechanisms should we employ to distribute and account for the grant aid we make available?

At present our main delivery mechanism for new grant aid proposals is RDC – Rural Priorities. The case management system and processes are owned by RPID and currently still under development. The complexity of the RP Case Management system has two distinct drivers;

- The SG aspiration to develop and deliver a wide ranging, integrated Rural Development funding mechanism which is administered by three organisations in partnership. This driver is self imposed and not a requirement of the RDR.
- The responsibilities of the Paying Agency in administering, accounting for and reporting on payments to beneficiaries in accordance with EC regulation and UK public sector accounting requirements. This driver is imposed on us by the EC and by organisations with a responsibility for the scrutiny of public sector administration (e.g. Audit Scotland).

The first of these drivers is unique to Rural Priorities within SRDP. The second of these drivers is common across all delivery mechanisms within SRDP.

Looking forward to the next SRDP period it is likely that RP, or something very similar, will exist and will be administered using an evolved version of the current case management system. By 2014 it is reasonable to expect that the case management system will be well developed in terms of functionality and usability. No case management system is ever likely to be perfect from the perspective of its users.

If RP, or its successor, continues as the main delivery mechanism for grant aid for woodland management and woodland creation then we will, in all probability, continue to use a case management system which is owned and maintained by

RPID. As a delivery partner for RP, FCS will influence the development of improvements in functionality and usability but will not have total control.

If we were to elect to deliver grants for woodland management and creation separately from RP, but still with in the next SRDP, we would need to develop a new case management system. This could be free (at least up to the point of making a funding decision) of the first driver described above but would remain linked to the second driver. This is equally true if we elected to deliver grants outside SRDP, as State Aids, although the second driver would be mostly influenced by domestic requirements for public sector accounting.

The estimating the cost of developing a new case management system, either within or outside SRDP, is very difficult and largely depends on the complexity of functionality which is contained in the system requirements. Based on recent experience it is likely to be within the £1m - £4m range for the system development plus annual maintenance and enhancement costs.

- *Should we continue to provide grants for woodland creation and woodland management as part of a wide ranging integrated delivery mechanism administered in partnership with RPID and FCS?*
- *Should we plan for a separate, narrowly focussed, delivery of grants for woodland creation and management using a new case management system?*

The questions raised in this paper are not necessarily the only relevant questions but they appear to cover the most obvious important issues.

This paper is designed to stimulate discussion and, at the very least, produce answers to the questions raised from across the FCS customer base. We intend to continue this debate with other fora during 2010.

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| Version | Date | Comment |
|---------|---------------|--|
| 1.0 | November 2009 | Presented to CRG 1/12/09 |
| 1.1 | March 2010 | Minor amendment to section on available finance. Inclusion of SG budget provision figures. |

Annex 1: Summary of Pros and Cons for delivery options for forestry grants in 2014 – 2020 period

There are 3 potential options for the delivery of forestry grants in the next SRDP

- **Option 1:** Remain within Integrated Delivery Mechanism (RP or similar) within SRDP (this would cover RDR Measures which contain core forestry activity + non-core activity and the legal basis for making payments contained in SRDP. Would not need a new application / case management system).
- **Option 2:** Devise a separate forestry focussed delivery mechanism within SRDP (this would only cover RDR Measures which contain core forestry activity and the legal basis for making payments contained in SRDP. However would need a new application / case management system)
- **Option 3:** Devise a separate forestry focussed delivery mechanism outside SRDP operating under State Aid approval (this could cover core forestry activity + non core activity. Legal basis for making payments would need to be sought from EC in bilateral discussions. Would need a new application / case management system)

| Option 1: Integrated Delivery Mechanism (RP or similar) within SRDP | |
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| Pros | Cons |
| <ul style="list-style-type: none"> • Meets key SG objective of joined up delivery • Wider range of funding available to forestry within SRDP • Eligible for EC co-financing, which is worth at least £6-8 million/year • Despite flaws, existing system is now becoming familiar with staff & applicants. • RPID/FCS/SNH committed to continued improvements • As system is already in place there should be no hiatus in availability of grant application system between current and next SRDP | <ul style="list-style-type: none"> • Application / Case management system is too complicated and is not user friendly • Complexity tends to require specialist input and dissuades one off applicants • Application process is time consuming and periodic funding rounds make the timescale for awarding contracts very protracted. • Transaction costs are higher than previous schemes • Administration burden is high due, in part , to EC RDR Implementation and Control Regulations. Requires IT process for contract issue, payment validation, inspection, validation and budget monitoring & reporting |

Option 2: A forestry only delivery mechanism within SRDP

| Pros | Cons |
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| <ul style="list-style-type: none"> • Wider range of funding still available to forestry within SRDP but not within a single application process • Still eligible for EC co-funding, which is worth at least £6-8 million/year • Application & scoring process could be simplified • Possibility of application process being quicker and contracts awarded faster (but dependant on new IT development) • Funding decision does not need to be competitive | <ul style="list-style-type: none"> • Administration burden is still high due to EC RDR Implementation and Control Regulations which requires IT process for contract issue, payment validation, inspection, variation and budget monitoring & reporting • New IT development required for Application / Case Management. Would need to cover all controls demanded for EC and SG audit purposes and interface with RPID payments systems • Only partially meets key SG objective of joined up delivery • Potential hiatus & upheaval to forest industry between existing and next SRDP (because new application system would be required) |

Option 3: A forestry only delivery mechanism outside SRDP operating under State Aid approval

| Pros | Cons |
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| <ul style="list-style-type: none"> • Application, scoring and administration process could be simplified • Possibility of application process being quicker and contracts awarded faster (but dependant on new IT development) • Funding decision does not need to be competitive • Not subject to EC RDR Implementation and Control Regulations ie EC audit requirement removed | <ul style="list-style-type: none"> • Does not meet key SG objective of joined up delivery • Scheme still needs to be scrutinised and approved by EC in term of competition law. • No EC co-funding, which is worth at least £6-8 million/year • Possibly more vulnerable to SG spending cuts because it does not form part of the SG commitment to EC on CAP payments. • Would need to build an IT delivery system. FCS does not have budget provision. • Potential hiatus & upheaval to forest industry between existing and next SRDP (because of State Aid negotiations with EC and new application / case management system would be required) • New IT development required for Application / Case Management. Would need to cover all controls demanded for SG audit purposes. • Monitoring of State Aid beneficiaries |

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| | required so that eligibility for EC co-financed payments from other grant schemes is tracked and made available to RPID as SG Paying Agency (most likely we would only allow payments to be made on IACS registered land parcels and to beneficiaries with BRN) |
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