



Fitting the Future

Review of the Forestry Business Units

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Final Report

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Introduction

Summary Terms of Reference

The **purpose** of the review was to make strategic recommendations to the Forestry Commission Executive Board on future delivery of services currently provided by the Forestry Business Units (FBUs), including a fundamental review of the structure, governance and business model under which the Business Units operate.

The Forestry Business Units operate as a set of shared service providers, primarily to the operational management units of the Forestry Commission (FC), but also (to a much lesser extent) to the private forestry sector where appropriate. They comprise:

- Mechanical Engineering Services (MES), which procures and manages the fleet of FC vehicles and plant, including the provision of repairs, service and maintenance through a number of workshops around Great Britain (GB), as well as Radio & Electronics services
- Forestry Civil Engineering (FCE), which advises on, builds and maintains forest infrastructure (roads, bridges, trails, etc) to support the various activities in the FC's forests; and
- Plant and Seed Supply Branch (PSSB), which supplies seed and plants to the local forest management units around GB.

Conducted by independent consultant Paul Jarah, the review began on 8th March 2010, to address **objectives** specified in the Terms of Reference (see FC web-site at <http://www.forestry.gov.uk/website/forestry.nsf/byunique/infd-83gkq2> or e-Connect at <http://alpacorn.forestry.gov.uk:7777/pls/portal/docs/PAGE/ECONNECT/FORESTRY%20BUSINESS%20UNITS/FBU%20REVIEW/TERMS%20OF%20REFERENCE%20.DOC>):

- 1) To ascertain the ongoing real demand for Civil Engineering, Mechanical Engineering and Plant and Seed Supply services from the three Countries, GB and Forest Research.
- 2) To assess the wider marketplace in relation to FBU goods and services.
- 3) To establish and present options and recommendations on the most efficient and effective ways of satisfying that demand, at the same time providing value for money. Recommendations will recognise differences between Countries (including the ongoing Operational Efficiency Programme in England) and take account of varied Business Unit issues (eg health & safety, intelligent buyer role, professional development and standards). This may include options such as incorporation of all or part of the FBUs within Country Operations, JV or outright sale to private sector, management buy-out, any other alternatives or the status quo.
- 4) To provide solid evidence of the specific and practical feasibility and financial implications to support options and recommendations, along with a risks/rewards analysis, outline delivery plan and time scales. To be aware of FC statutory and organisational obligations, eg in relation to TUPE, H&S, procurement.

Forest Renewables were out of scope.

Approach

After an initial familiarisation with written material and an introduction to the FC by Charlie Taylor, Tay Forest District Manager, the review broadly followed the work-plan attached as Appendix 1, including:

- Extensive consultation with users of FBU services, especially within Forest Enterprise
- Attendance at FCE and MES Management Board meetings as well as extensive discussions with key FBU stakeholders
- Consultation with the FBU Staff Council and trades union representatives
- Interviews of senior FC stakeholders
- A limited range of discussions with external stakeholders including ConFor, private nurseries and private engineering contractors
- Synthesis of findings and identification of realistic options
- Development of conclusions and recommendations for the way forward.

Those consulted or interviewed are listed in Appendix 2. Throughout the review Charlie Taylor continued to provide invaluable informal guidance on FC history, culture, processes, etc while the Steering Group acted as a sounding board as work progressed.

The Steering Group comprised:

- Simon Hodge, Chief Executive of Forest Enterprise Scotland as Chair
- Simon Hodgson, Chief Executive of Forest Enterprise England as Member
- Peter Garson, Head of Estate Management for FC Wales as Member
- Jean Lindsay, Director of Human Resources for the FC as Advisor, and
- Michael Ansell, Director of the FBUs and Forest Renewables as Advisor.

The heads of the three units were all extremely co-operative:

- Jeffrey Livingston, head of Mechanical Engineering Services
- Frank MacCulloch, head of Forestry Civil Engineering, and
- John Morgan, head of Plant and Seed Supply Branch.

Thanks are due to all concerned for their open-ness, frankness and willingness to address issues that could sometimes be uncomfortable in implication for the individual or individuals concerned.

Their input has been invaluable in helping develop, refine and test the various options but the author is responsible for the final analysis and recommendations.

Criteria

In order to minimise the danger of bias in favour or against particular options, it was important to establish clear criteria against which options could be evaluated at a later stage. The reviewer's initial proposals were refined in the light of comments by the Steering Group and trades union representatives, and accepted by the Director-General of the FC.

The criteria established were:

- ▶ Provision of operational services for FC customers
 - Value for money, affordability
 - Appropriate service levels
 - Continuous improvement drive
- ▶ Ease of transition
 - Lower short-term disruption
 - Impact on staff
 - Manageability and acceptability
- ▶ Strategic robustness
 - Ability to meet changing requirements
 - People support and development
 - Level of risk
- ▶ Financial impact
 - One-off costs
 - Level of payback

No attempt has been made to score or rank options against these criteria and there is inevitably a significant degree of judgment attached to the evaluation.

Findings

All Business Units

The Business Unit structure was established as a way of making service provision sharper and more commercial at a time when the Forestry Commission was seen as a potential “Next Steps Agency”. The terminology, coupled with changing guidance on external income, may have been partly counter-productive leading to a perception of a profit motive and reduced confidence on the part of users in the charges incurred.

Users are generally **positive** about the FBUs in relation to:

- Overall quality of service provided
- Flexibility in response to changing requirements
- Incremental improvements to services.

This is reflected in the Service Board’s endorsement and support for the FBUs’ performance.

On the other hand there are **concerns** about:

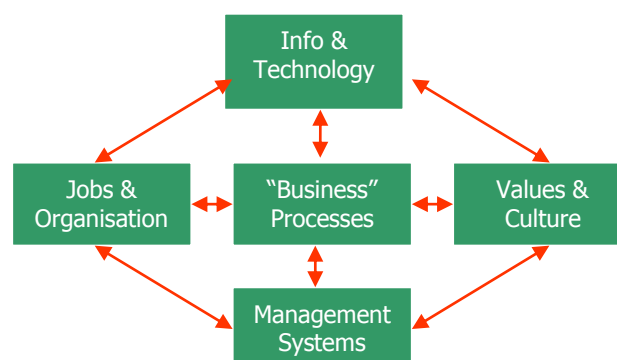
- Value for money in some areas
- Transparency of charges
- A perceived shortage of radical suggestions for improvement.

Other **observations** include:

- Planning is a challenge for the FBUs which depend on users’ ability to forecast their demand accurately
- Accountability for plans is somewhat unclear with users in particular seeming to have variable commitment; this is perhaps inevitable in the current structure
- The professional expertise of the FBUs is used extensively by some users and very little by others, generating a very mixed picture of the value delivered in this way (and often not charged to the user)
- Succession planning is a concern in all FBUs.

Perhaps most fundamentally it is clear that the FBUs are actually **Service Units** supporting the needs of users across the FC.

In this context it is worth noting the **Operating Model** concept (of James Champy and Michael Hammer in *Reengineering the Corporation*) which highlights the need for the components of an organisation to be compatible and aligned with each other:



There are considerable differences between the requirements of a profit-oriented business and those of a public sector body; this is illustrated in Appendix 3.

Forestry Civil Engineering

Forestry Civil Engineering (FCE) provides a range of services to forest districts in particular, with respect to:

- Forest road design/construction
- Recreation infrastructure including mountain-biking trails
- Quarry and reservoir regulatory responsibility
- Quarrying for aggregate production
- Bridge design and inspection
- Other timber structures
- Bridge manufacturing.

In England and Wales the vast majority of operational activity has been contracted out; in Scotland more work is still undertaken in-house. Similarly the range of activities varies between countries with Scotland expected to continue a significant road-building programme (some 100km annually) whereas England has very limited road construction (<10km annually) and a much greater emphasis on recreation infrastructure.

All countries have an ongoing requirement for maintenance services for roads, bridges, structures, reservoirs, etc. Closely associated are regulatory obligations in respect of bridges, quarries and reservoirs, as well as management responsibility for external contracts and for health and safety.

Most of FCE's activities are closely related to operational management of forest districts, whether their focus is on harvesting or on recreation. In the case of recreation-related activity planning is a particular challenge, especially in relation to externally funded projects (Heritage Lottery Fund, EU, etc).

Apart from the findings discussed above for all FBUs, users clearly value and take a **positive** view of FCE in relation to:

- Their flexibility and speed of response
- Specialist expertise in its areas of activity, especially forest roads and bridges
- Working relationships.

Challenges include:

- Planning, especially for externally funded projects as mentioned above
- Relatively new management team within FCE
- Staff development and retention of expertise.

Mechanical Engineering Services

Mechanical Engineering Services (MES) includes a varied range of activities:

- Light vehicle fleet specification and procurement
- Light vehicle service and maintenance
- Heavy equipment (harvesters and forwarders, graders) repairs and servicing
- Other equipment (chainsaws etc) repairs and servicing
- Mobile telephone provision and contract management
- Remote sensing/video (eg osprey nests)
- Network cabling.

Users are generally **positive** about:

- The quality of the services provided
- Working relationships
- MES responsiveness.

However, there are also **challenges**, partly driven by falling demand as Direct Production has reduced:

- Complexity and perceived lack of transparency about charges
- Delays in decision-making regarding workshop rationalisation
- Cost of repairs and maintenance.

It is clear that demand is unlikely to increase in the future:

- A move back to more Direct Production is highly unlikely
- A move to supplier servicing of harvesters and forwarders would reduce workshop demand further
- The vehicle fleet is more likely to reduce than increase given its size relative to staff numbers and the low probability of staff numbers increasing.

MES's range of activities can be categorised as:

- Workshops
- Fleet management
- Radio & Electronics Branch.

It is worth noting that fleet management and workshop activities have the same reporting line; having different reporting lines can generate “creative tension” to drive different behaviours.

Plant and Seed Supply Branch

Plant and Seed Supply Branch (PSSB) is responsible for:

- Seed collection and supply within the FC from seed orchards and other stands
- Provision of plants within the FC, including:
 - Management of Delamere, Newton, and Wykeham nurseries
 - Acquisition of any additional requirements from private nurseries
 - Disposal of any excess stock to the private nursery trade.

Some 70 to 80 million broadleaf and conifer plants are needed each year across public and private sectors in the UK, with the FC as both the largest single supplier and the largest user. Broadly speaking the three FC **nurseries** produce some 25 million plants, private UK nurseries around 40 million, with the balance imported. The opportunity to import more if necessary means the risk of market failure is low.

The biggest challenge for the FC nurseries is matching supply to demand given unpredictable, if necessary, changes in requirements from districts due to changing policy, preference or necessity (eg because of funding for re-planting, or for disease avoidance). Even users acknowledge that they are not as good at planning as perhaps they could be. Having an in-house facility provides flexibility, but may not encourage accurate planning.

All three nurseries have motivated and enthusiastic management and staff and there is a belief on the supply side that their plants are of better quality than those from private sector nurseries. Users, however, seem to have less commitment to the in-house product.

Future demand is perhaps even harder to predict than it has been for a number of reasons, including:

- Funding uncertainty in the current economic climate
- A trend towards increasing species diversity as a response to climate change and disease concerns.

For example, the requirement in Scotland in 2011-12 could be as high as 15 million plants or as low as 8 million, depending on funding.

Seed collection, trading and supply is a small-scale activity but provides the FC with a degree of control over the genetic mix of forests and a degree of influence over quality of plant production generally.

Analysis

Context

Since devolution the FC has faced strategic and operational questions about the direction each of the three countries' governments will want to follow, how to resolve possible divergence between directions, and how to handle financial management in this context, whilst also retaining cohesion for the FC at large. Against a background of increasing uncertainty about public finances and a necessary hiatus while political direction becomes clearer, such issues are an important backdrop to this review.

Three distinct scenarios can be envisaged (as well as variants on them):

- ▶ Current central GB core plus three countries model continues essentially unchanged, “steady as she goes”
- ▶ Increasing divergence between countries in terms of political direction, priorities, and/or funding, leading to a basically “federal” approach with three autonomous entities, supported by a central core of shared services (which could ultimately disappear)
- ▶ A single country changes tack in a fundamental way, developing a distinct independent operating model of its own (“unilateral declaration of independence”).

To the extent possible, this review aims to take these possible futures into account, principally through the “strategic robustness” evaluation criterion.

It is worth noting that even in the space of the three months of this review the drivers toward a more “federal” approach seem stronger rather than weaker.

External Market

The review began with the premise that external income could/should be actively solicited if demand exists; it has become increasingly clear, however, that this is questionable for a number of reasons:

- ▶ Differences between operating models – culture, skills, etc
- ▶ Potential conflict reducing the perceived commitment to FC users
- ▶ Difficulty of fully costing supply of services to the outside market
- ▶ Risk of subsidy or State Aid challenges, real and/or perceived.

Also, the level of truly external “external” income is limited and barely material in the broader scope of the FC; considerable investment (especially in new skills for sales and marketing) would be required to convert this into a significant contribution.

There are a small number of opportunities for commercialising FC-developed intellectual property, but this can best be achieved through licensing or spinning off the relevant part of a FBU. Within the FBUs themselves the “disposal” of excess capacity of 5 to 10% or so should be possible, within clear guidelines, but any greater level of spare resources implies the need for reducing capacity to match supply with demand more closely.

If this approach is not followed there is a danger of attempting to maintain a cost base that cannot be sustained by long-term demand.

Activities

In reviewing the FBUs it is important to identify and clearly distinguish the different services they provide. The mix varies but in essence they are all involved in the following activities:

- **Advice** and guidance to FC colleagues; this can be extremely technical and require the highest levels of professional expertise or can be more “day to day” operational guidance from a mobile mechanic or other FBU staff member. Most of this advice is provided without formal charging and risks being undervalued by the person accessing the advice. It also makes it difficult to assess the FBU cost base, while there is almost certainly a degree of unfairness; eg some districts will be “heavy users” while others may rarely if ever access some of the central professional expertise
- **Buyer** and manager of external products and services, including contractors, seedlings, etc. The “intelligent buyer” role is an important value-add for the FC in helping ensure that needed products or services are specified correctly, supplied correctly, and their performance reviewed properly. When the relevant FBU has been excluded then the cost to the FC has often been higher than it should have been.
- “**Compliance**”, ie consistency, QA, H&S, standards, certification, R&D
- **Delivery** of services or products in an operational sense, including repairs/maintenance, seedlings, etc
- **Evaluation** and improvement, eg post-procurement reviews.

It is worth noting, in terms of the last of these activities, that the FBUs have initiated and implemented a Value for Money plan that is delivering significant benefits.

Components

Given the range of activities within each of the three FBUs it is helpful to think of them in terms of more homogenous organisational components:

1. Forest Engineering, including roads, recreation infrastructure, quarries, reservoirs
2. Bridges & Structural Design and Engineering (very closely allied with 1)
3. Bridge Manufacturing
4. Radio & Electronics Branch
5. Workshops and related activities
6. Fleet Management
7. Seed Collection & Supply
8. Nurseries

The next section of this report will identify and review the options available for these eight areas.

Options

Forest Engineering

Roads and recreation infrastructure in a forest environment represent a specialist professional expertise within the civil engineering field, including:

- Forest roads and bridges characterised by a combination of relatively low volume of usage (compared with motorways etc) and occasional requirement for very high load-bearing for timber truck haulage
- Relatively unusual requirements for recreational purposes such as mountain biking trails..

The requirement for this expertise will continue for the foreseeable future with substantial road-building needs in Scotland, road maintenance in all countries, and recreation-related activity in England and elsewhere (though this is hard to quantify in the current funding uncertainty).

Alternative providers of such expertise are currently scarce in the UK. Other forest operators such as Scottish Woodland and Tilhill could supply services at the margin, but do not have the scale to address all the FC's requirements. Civil engineering contractors and consultants, eg May Gurney, have the scale but do not have the depth of experience of the in-house FCE team. This may change, eg with the further development of wind-farms, but an external solution does not appear viable at this point.

There are therefore essentially two options available for Forest Engineering:

- Leave as it is, or
- Retain a small central core team responsible for strategic advice, compliance and evaluation, with operational advice, “buyer” and “delivery” activities becoming part of country operations (with a “dotted line” to the central team).

The second option calls for clear definition of roles and reporting arrangements to ensure that country forest engineering can be managed effectively and that the central team has a “home” either in FC GB or, possibly, in FES.

Design, Bridges, and Structures

Very closely aligned with the Forest Engineering activity FCE's work on design, bridges and structures is a niche speciality and similar considerations apply; there would be little, if anything, to be gained by splitting them apart and therefore the options depend on what happens with Forest Engineering:

- Leave as it is, or
- Retain with the small Forest Engineering central team in FC GB or FES.

Bridge Manufacturing

FCE has developed an innovative approach to manufacturing timber bridges, using the Chapelhall workshop as a production facility. The business plan for bridge manufacturing projects a positive net income though it is unclear that this is achievable in practice; it may also understate the amount of management time and effort required (especially if anything were to go wrong).

To exploit the technology effectively the FC would need to adopt a fully commercial operating model, which is certainly feasible through a (partial) spin-off. However, one

private sector bridge manufacturer has already offered to pay a royalty for using FCE's approach and this option is potentially attractive.

The options available are therefore:

- License to a third party or parties
- Spin off
- Retain small facility for internal needs only (possibly with the Signs Unit, though this has not been explored in this review).

Radio & Electronics Branch

Radio & Electronics Branch (REB) is another small team with expertise developed in forest environments. It would be possible to buy in REB-type services from external providers though it is extremely unlikely that this would deliver better value for money given the diverse nature of REB's activities – the transaction cost for each project would outweigh any savings.

There are therefore only two realistic options available:

- Retain within MES at the centre
- Move to Information Services, with which REB already has a close working relationship.

Workshops

The MES workshops and garages are unusual in offering a full range of services to users from routine servicing to modifications and accident repairs for a wide range of equipment and vehicles. At various times other reviews have looked at specific elements of the workshop activities, eg at options for local repairs in Scotland, but have arguably arrived at inevitable conclusions based on the inherent constraints in the scope of the reviews. There are, however, at least three options available:

- Leave as is within MES
- Split between countries (but retaining operational co-operation)
- Outsource all workshops and garages to a single supplier.

Additionally it may be possible to spin off individual workshops where they could be commercially viable from local private sector work; Longman is the most obvious candidate given the high percentage of income already derived externally.

Fleet Management

The Fleet Engineer, with territorial and operational mechanical engineers and workshop staff, are involved in specifying, acquiring and maintaining a wide range of equipment and vehicles from harvesters and loaders to ranger vehicles and more "standard" cars and vans.

Four options can be considered:

- Leave as is within MES
- Split between countries (but retaining operational co-operation)
- Transfer to FC GB, eg IFOS
- Outsource all workshops and garages to a single supplier (or by country later).

Seed Collection & Supply

Given the strategic importance of seed to FC operations and its potential value as a policy tool (as well as providing future plants) it is unrealistic to consider disposal of the seed-related activities, leaving three possibilities:

- Leave as is within PSSB
- Move to Forest Research (given co-location at Alice Holt)
- Move to FC GB, potentially IFOS.

Nurseries

Perhaps the widest range of options applies to the Nurseries:

- Leave as is
- Rationalisation of capacity, eg by closing Wykeham
- Sell off one or two nurseries
- Dispose of all nursery activity.

Disposal or selling off could take several forms:

- MBO of Newton
- Sale of Newton and/or Delamere
- Establish joint venture with private sector
- Contract out the management of one or more nursery or nurseries.

Evaluation




Introduction

Each of the options identified and discussed in the previous section has been evaluated against the criteria established at an early stage of the review:

- ▶ Provision of operational services for FC customers
 - Value for money, affordability
 - Appropriate service levels
 - Continuous improvement drive
- ▶ Ease of transition
 - Lower short-term disruption
 - Impact on staff
 - Manageability and acceptability
- ▶ Strategic robustness
 - Ability to meet changing requirements
 - People support and development
 - Level of risk
- ▶ Financial impact
 - One-off costs
 - Level of payback

Assessment of how each option rates is necessarily a matter of judgment; in the tables below:

- the “whiter” a rating, the weaker is the option
- the “blacker” the stronger
- the best option(s) for each unit is highlighted in green.

-  = weak
-  = strong
-  = “best” option

Forest Engineering

There are two principal options available for Forest Engineering:













- Leave as it is, or
- Retain a small central core team responsible for “strategic” advice, compliance and evaluation, with operational advice, “buyer” and “delivery” activities becoming part of country operations (with a “dotted line” to the central team).

The second option calls for clear definition of roles and reporting arrangements to ensure that country forest engineering can be managed effectively and that the central team has a “home” either in FC GB or, possibly, in FES, giving three viable alternatives in total.

In evaluating these options there are clear advantages and disadvantages associated with each:

	Advantages	Disadvantages
Leave as is	No disruption	No improvement
Country split, centre to GB	Closer alignment between user/funder and provider Small cost saving Countries can push down costs further	FC GB reporting issue
Country split, centre to FES	Closer alignment between user/funder and provider Small cost saving Countries can push down costs further	“Conflict of interest” may be seen by countries

Given these considerations the options are evaluated as follows:

	Service provision	Ease of transition	Strategic robustness	Financial impact
Retain FCE as is				
B & D roles to countries and A, C & E to FC GB				
B & D roles to countries and A, C & E to FES				













Note: See page 11 for A, B, C, D, E activity split.

Design, Bridges, and Structures

The options available relate closely to the choices for Forest Engineering:

- Leave as it is, or
- Retain with the small Forest Engineering central team:
 - in FC GB
 - in FES.

Essentially the advantages and disadvantages of the options are the same as for Forest Engineering as is the evaluation, though the first option is obviously not available if operational Forest Engineering is split between the countries:













	Service provision	Ease of transition	Strategic robustness	Financial impact
Retain as is within FCE				
Central unit within FC GB				
“Central” unit within FCS				

Bridge Manufacturing

The options identified are:

- Retain small facility for internal needs only
- License to a third party or parties
- Spin off.

Option	Advantages	Disadvantages
Retain with Design, Bridges & Structures	No disruption	Poor fit with FC core Management effort/risk
License/outsourcing	Simple revenue source Minimal risk	
Spin off	Link could be retained	Lack of commerciality Lower income to FC

	Service provision	Ease of transition	Strategic robustness	Financial impact
Retain with Bridges & Structures				
Outsource/license				
Spin out				

In practice the licensing option is already being implemented by FCE.

Radio & Electronics Branch

The two realistic options available are:

- Retain within MES at the centre
- Move to Information Services (IS), with which REB already has a close working relationship.

There are two key considerations which somewhat conflict with each other:

- The “natural” home for REB given its activities and the capabilities/skills of its staff is IS
- There are no particular problems with the current arrangements so “if it ain’t broke don’t move it”.

	Service provision	Ease of transition	Strategic robustness	Financial impact
Retain within MES	●	●	◐	-
Move to IS	●	◐	●	-

The key determinants for choosing between the options are:

- The possibility that MES will change such that there is no scope for REB
- Progress by IS in tackling its earlier challenges.

Workshops

Previous reviews of MES have been relatively limited in scope and there may be greater opportunities for improvement by taking a “big picture” view

Option	Advantages	Disadvantages
Retain as is	No disruption	Financial systems
Split between countries	Closer to users Opportunity for countries to drive down costs	Loss of cohesion? Need for standards
Outsource all	Financial savings	Cultural challenge Loss of internal expertise

Additionally there would be financial and public relations benefits from spinning out a workshop to staff, provided there is a viable business locally.

















	Service provision	Ease of transition	Strategic robustness	Financial impact
Retain as is	◐	●	◐	◐
Split between countries	●	●	◐	◐
Outsource all	●	◐	●	●

It is perhaps worth noting that the Environment Agency, with more than 6,000 vehicles and plant, “would not even consider bringing workshops back in-house”.

Fleet Management

Options for the fleet management activity are similar to those for the Workshops with the additional possibility of transferring responsibility to FC GB “centrally”:

Option	Advantages	Disadvantages
Retain as is	No disruption	Financial systems
Transfer to FC GB	Sharper commercial focus Independence from Workshops	Financial systems
Split by country	Closer to users Possible admin savings Access to country deals	Need for standards
Outsource all	Financial benefits	Cultural challenge

	Service provision	Ease of transition	Strategic robustness	Financial impact
Retain as is				
Transfer to FC GB				
Split by country				
Outsource all				

Seed Collection & Supply

PSSB’s seed activities are of limited scale representing a valuable instrument of policy and supply security for the FC. Realistically the only suitable options may be in-house.

	Advantages	Disadvantages
Retain in PSSB as is	No disruption	Dependent on Nurseries
Move to FR	Expertise link Physical location	Cultural fit – research/service Overhead costs?
Move to IFOS	Expertise link	Reporting arrangements?
Sell off	(Limited) financial benefit	Loss of policy tool Supply security risk

The future of the Nurseries will drive the determination of where Seed Collection & Supply should report:

	Service provision	Ease of transition	Strategic robustness	Financial impact
Retain within PSSB as is (if option available)				
Move to FR				
Move to FC GB (if no PSSB)				
Sell off				

Nurseries

The PSSB nurseries are the descendants of a FC model which once had multiple small nurseries scattered around the country with individual forests – it is unlikely that anyone would establish them in their current form if starting the FC anew. It would almost certainly be possible for the FC to secure all its plant needs from the private sector, eg through contract growing of its own seed coupled with appropriate supply of vegetatively propagated material.

However, that would cause significant transition issues and may or may not generate better value for money. Given uncertainty about future FC demand, but the likelihood that this will be lower rather than higher, at least some degree of rationalisation is desirable. This could also be achieved through some form of private sector involvement; that option is described here as “contract out management” but it could take the form of a joint venture or other approach.

	Service provision	Ease of transition	Strategic robustness	Financial impact
Retain as is				
Rationalise				
Disposal:				
- MBO				
- Sale				
- Contract out management				

In practice the only way to ascertain private sector interest in a management contract (or alternative arrangement) is to invite expressions of interest and/or tenders.

Conclusion

Summary

The evaluation of the various suggestions suggests some clearly stronger options in a number of areas but also the need for a real test of possible private sector propositions in others. In summary:

Area	“Best” option
Forest Engineering	Small central team within FC GB; “delivery” within countries
Design, Bridges & Structures	Retain small team within FC GB
Bridge manufacturing	License IP to 3 rd party or parties
Radio & Electronics	Transfer to IS
MES Workshops	Outsource or (very) small central team within FC GB; “delivery” within countries
Fleet management	Outsource or split between countries
Seed collection/supply	Retain within FC GB; either PSSB or elsewhere
Nurseries	No clearly preferred option; need to explore possibilities further with 3 rd parties

Benefits

The over-arching **strategic** benefits of the proposed way forward are three-fold:

- Stimulating value for money improvements
- Facilitating the FC's ability to focus on core activities and harness external best practice in non-core areas
- Improving accountability for civil engineering as part of the core of the FC's activities.

For **Forestry Civil Engineering**, closer alignment with users should

- improve planning
- drive operational costs down
- increase country accountability
- protect professional expertise centrally.

With **Mechanical Engineering Services** the key should be improved value for money (see below) and/or closer alignment with users if the workshops are split between countries. Similarly for **Plant and Seed Supply** value for money should be enhanced significantly.

The **financial** benefits are inevitably hard to quantify precisely at this stage and will only be fully clear once external proposals have been received. Three scenarios can be considered:

- A conservative estimate of the minimum annual savings
- A target that should "easily" be achievable through use of outsourcing or contracting out
- A "high" figure that might be possible through improved planning and aggressive commercial negotiation.

	Conservative	Target	"High"
FCE	-	£100k	£300k
MES	£200k	£500k	£2,000k
PSSB	£250k	£500k	£500
FBU central	£150k	£200k	£200k
Total	£600k	£1,300k	£3,000k

Note: target estimated on basis of 2.5-10% saving; *Public Services Industry Review* (2008) indicated normal range of 10-30% benefit from competitive tendering

It should be noted that previous "market testing" has generally been on the basis of offering outside providers the opportunity to supply only small percentages of FC demand. Opening up the possibility of longer term supply contracts for much greater proportions of demand should generate offers from suppliers with costs an order of magnitude lower.

The **cost** of implementation lies principally in the need for an experienced Implementation Manager and a Buyer which will cost in the region of £250k in 2010-2011; a contingency of £50k would also be prudent.

Ongoing additional costs will be minimal with the retained Intelligent Buyer functions, for example, provided by existing roles within central or country teams. Some cost savings may be possible in relation to office space in Stirling and Peebles if it can be used for other purposes, while outsourcing of fleet and/or workshops might generate a one-off cash injection from the transfer of assets.

It is worth noting that as well as the benefits to the FC itself, the outsourcing route would provide the outsourced units with more commercial freedom to pursue other business and potentially provide their staff with developmental opportunities.

Implications

Implementation

One of the clear implications of the evaluation is that the central role of FBU Director, together with associated finance and administration, is no longer necessary. A few of the other central FBU staff may, however, need to be redeployed and this needs to be determined in detail.

Management of the implementation process will call for a dedicated resource (as designated Implementation Manager or IM) with the appropriate commercial and project management skills as well as active support from the Executive Board and other senior managers. The IM will need to ensure the FBUs continue to provide the required service levels, with appropriate input from the Service Board, during the transition period.

The pace of implementation will need to balance:

- Avoidance of “just another review, nothing actually changing” responses
- Consultation with trades unions
- Rushed changes whose implications have not been fully thought through
- Valuable “quick wins” as signals of change where possible.

Forestry Civil Engineering

The key challenges for the proposed changes to FCE lie in delivering the benefits of country accountability and closer liaison for delivery without diluting the shared experience and expertise within FCE.

The issues to be resolved relate to three areas:

- Precise composition and reporting for the central team
- Arrangements within countries
- “Liaison” across centre and countries

The head of FCE needs to work with the IM and country heads to clarify these:

- ▶ Central team
 - The current team includes:
 - ▶ Head of FCE in Inverness
 - ▶ Two in Stirling
 - ▶ Small team in Peebles, including admin
 - Future team needs clarification of
 - ▶ Role of current FCE head (with central team or Scotland)
 - ▶ Location(s)
 - ▶ Reduced admin requirement in Peebles
- ▶ Country teams
 - England and Wales straightforward but need reporting line
 - Scotland reporting less clear given relative inexperience of incumbents
 - Admin needs should be manageable within countries
- ▶ “Liaison” will not be complex but there needs to be clarity about
 - Communication and meetings akin to current FCE Management Board
 - Compliance/control of civil engineering standards and staff development

The costs of implementation for FCE will be immaterial while some small cost operational savings (<£100,000) may be available through eliminating some administration activity (eg multiple handling of invoices) and rationalisation of locations.

Mechanical Engineering Services

The feasibility and attractiveness of outsourcing fleet and/or workshop operations needs to be tested quickly so that final decisions can be taken. Subject to guidance from Procurement this is likely to require the following steps:

- Preparation of “short and sharp” briefing document to solicit expressions of interest (EOI) from possible outsourcers
- Pre-qualification assessment of interested parties
- More detailed information for those interested in bidding
- Receipt and evaluation of tenders
- Negotiation
- EB decision on way forward.

Throughout this process care will be needed to ensure that the FC is fully protected contractually on all matters of compliance, including health and safety, as well as protecting the right to reject any and all offers.

Within the specification tenderers should be invited to bid for any or all of the components in scope, ensuring that a core “intelligent buyer” function is to be retained. Outsourcing benefits should include:

- Avoidance of DRIVE maintenance or update costs
- TUPE of affected staff, under contractual arrangements
- Standard continuous improvement conditions contracted
- Fleet savings estimated on basis of outsourcing norms
- Workshop savings harder to assess but expected to be similar, including:
 - ▶ Significantly reduced capital requirements
 - ▶ Transfer of facilities to private business would facilitate external income and prospective cost savings to FC
 - ▶ Contractual “gain sharing” benefits

Should the bids received not prove to offer the expected benefits then the country split of Workshops will need to be developed and a final decision taken on fleet management.

Regardless of the above time-consuming activities, the head of MES and the IM should pursue two other issues:

- ▶ Timing of the transfer of Radio & Electronics to IS
- ▶ Workshop MBO interest to be explored with key individuals

Plant and Seed Supply Branch

The key opportunity for PSSB is to determine whether private sector nurseries are in a position to make cost-effective propositions for acquisition, joint venture or management of the three FC nurseries.

The head of PSSB and the IM need to work together to pursue this in a similar manner to the MES approach outlined above.

No decisions are needed on the seed-related activities until the nurseries' position has been clarified.

Risks

The greatest risks associated with the proposed direction of travel relate to the **implementation** process itself. Any change programme inevitably generates uncertainties and the possibility of unintended consequences, especially if activities are not properly planned and co-ordinated. These issues can be managed but will need a dedicated Implementation Manager (IM), responsible for the change while ensuring that the FBUs continue to provide the services needed. The IM should report to a Steering Group charged with overall governance of the programme and ensuring that the following are addressed:

- Timing is critical. Delay would foster uncertainty and morale concerns while excessive haste can lead to avoidable mistakes
- Judgment will be needed on a mix of decisions as further information clarifies the relative strengths of the external provider options
- Strong commercial input needed for external negotiation, including full support from Procurement.

Other **overall** risks to be managed are:

- Danger of some activities being done three times
- Implications for administration to be resolved
- Reporting arrangements for central units to be clarified
- Knowledge management could be at risk if too much is outsourced

For the individual FBUs the biggest risks lie in the areas above with few unit-specific concerns.

Forestry Civil Engineering

- ▶ Proposals involve minimal risk to operations, staff or strategy
- ▶ All can be minimised by planning and monitoring

Mechanical Engineering Services

- ▶ Short-term morale risk during uncertainty
- ▶ Longer-term issues manageable contractually if outsourced

Plant and Seed Supply Branch

- ▶ Seeds proposals introduces no risks
- ▶ Two key risks for Nurseries:
 - Short-term morale
 - Longer-term flexibility (to be mitigated through contracts)

The Implementation Manager will need to maintain and monitor a log to ensure these risks (and any others that might emerge) are effectively managed.

Next Steps

Given the procedures that need to be followed for procurement activity an early decision to proceed with implementation is needed if the bulk of the gains are to be obtained for 2011-2012. That needs to include budget provision of up to £300k in 2010-2011 for implementation costs.

Once these approvals have been given then the implementation team and governance structure needs to be established, including:

- ▶ Steering Group
- ▶ Implementation Manager
- ▶ Buyer (full-time)
- ▶ Support.

The Implementation Manager (IM) will carry accountability for both driving the transition and ongoing management of the FBUs during the change process. The IM will need to lead three streams of activity:

- FCE changes – with Frank MacCulloch
- MES outsourcing exploration – with Jeffrey Livingston
- Nurseries private sector options – with John Morgan

The **FCE** changes will be the least complex to address, with a few key decisions:

- ▶ Central team reporting (including Design, Bridges & Structures and Forest Engineering) to FC GB or FES
- ▶ Current Head of CE in central team or FES
- ▶ Agree reporting line for operational FCE staff in country
- ▶ Establish “protocol” for co-operation and professional development

The **MES** changes will be more complex (apart from the transfer of REB to IS) and will depend on the formal exploration of private sector interest in taking on any or all of the activities, a process which needs careful management to comply with legal requirements without losing momentum.

Similarly for **PSSB** the exploration of private sector interest needs to be based on a solid defensible process.

Dependent on outcomes of external proposals and negotiations for MES and PSSB, selection of the best option(s) will need approval from the Steering Group. There may also be a need for tender evaluation panels in due course.

Timescale

As the above discussion indicates, it seems unlikely that the transition can be completed in less than nine months, which would suggest a target for completion of 1st April 2011, although even that will require a high level of support and commitment from all levels.

However, that should not delay implementation of those changes that require little or no external engagement:

- FCE requires a relatively small amount of work in order to refine the processes and reporting arrangements needed post-implementation; a target of 1st October 2010 would be realistic
- Similarly, moving REB to IS is not dependent on external factors, the main requirement relating to SLAs and charging processes, so the change could be made at almost any time; 1st October 2010 would reinforce the FCE move and strengthen the signal that the FC is serious about the changes.

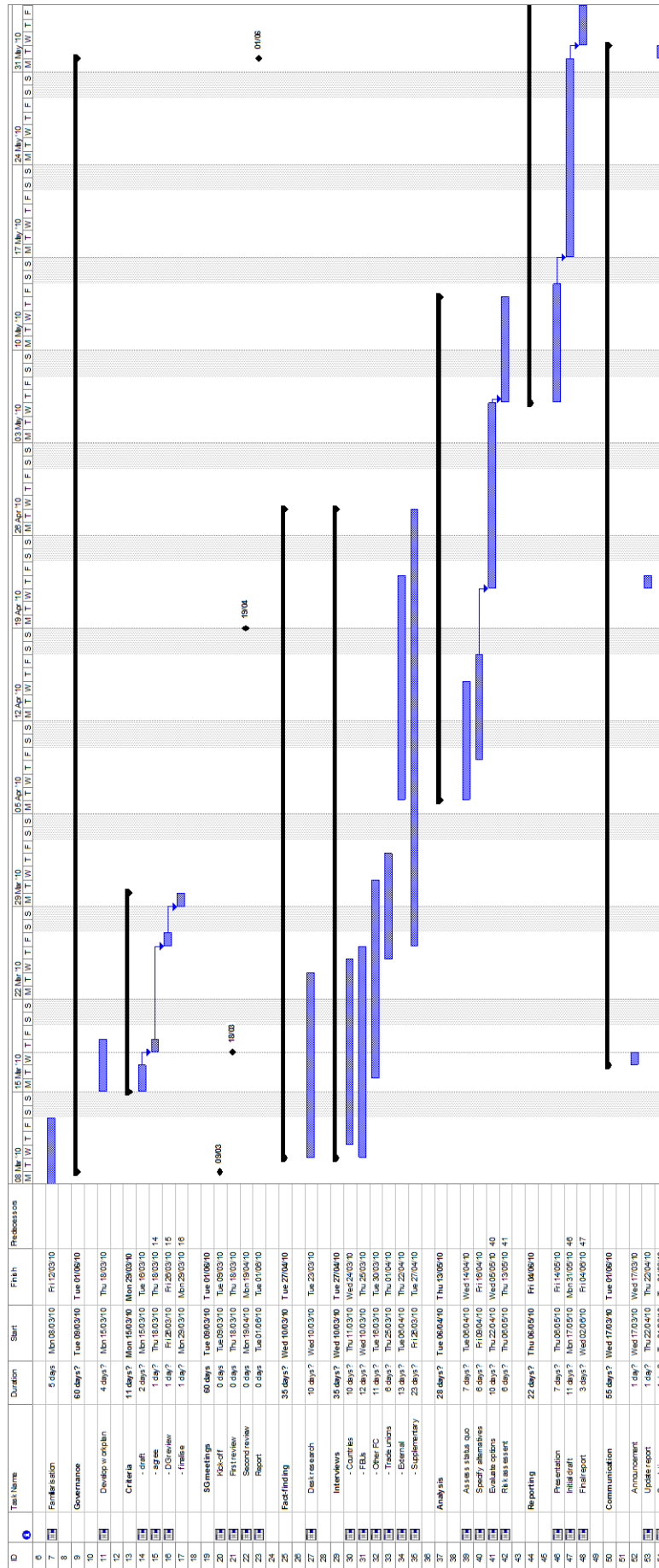
The table below indicates a tentative schedule for implementation:

FBU	Action	Lead	With	Target
	Appoint Implementation Manager (IM)	EB/SG		Week 1
All	Consult with TUs	IM	HR	Week 3 (+ +)
FCE	Refine FCE details	IM	Frank MacCulloch	Week 5
	Approve FCE details	SG		Week 9
	Implement FCE change	Country heads	Frank MacCulloch	Week 14
MES	Prepare MES outsourcing specification	IM	Jeff Livingston	Weeks 1 - 6
	Issue MES specification (PQQ)	IM	Jeff Livingston	Week 7
	Review PQQ responses	IM	Jeff Livingston	Weeks 15 - 17
	Issue tender invitations	IM	Jeff Livingston	Weeks 18
	Review tenders	SG	IM/Jeff Livingston	Weeks 25 - 27
	Outsource or country split implementation	tbc	tbc	Weeks 28 - 36
	Explore/develop workshop MBO interest	IM	Jeff Livingston	Week 14
	Move REB from MES to IS	Jeff Livingston	David Felstead	Week 1
PSSB	Prepare Nurseries invitation specification	IM	John Morgan	Week 4
	Issue invitation	IM	John Morgan	Week 4
	Progress as for MES	IM	John Morgan	Weeks 5 -26
	Recommend and decide	SG/EB		Week 27

Appendices

- 1. Workplan**
- 2. Consultees**
- 3. Operating Models**
- 4. Outsourcing examples**

1. Workplan



2. Consultees

Conversations of varying degrees of formality were held with the following:

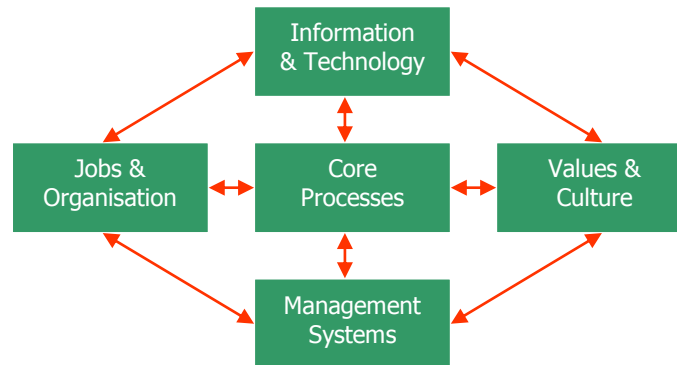
Bob McIntosh – Director Forestry Commission Scotland
Wilma Harper – Head of Corporate and Forestry Support, Forestry Commission
Jean Lindsay – Human Resources Director, Forestry Commission
James Pendlebury – Chief Executive, Forest Research
Michael Ansell – Director Forestry Business Units and Forest Renewables
David Felstead – Head of Information Services, Forestry Commission
Emily Ramsay – Head of Health & Safety, Forestry Commission
Peter Weston – Head of Inventory, Forecasting and Operational Support
Simon Hodge – Chief Executive Forest Enterprise Scotland
Simon Hodgson – Chief Executive Forest Enterprise England
Peter Garson – Head of Estate Management, Forestry Commission Wales
Brian Mahony – Operations Manager, Forest Enterprise England
Les Bryson – Head of Operations, Forest Enterprise Scotland
Mike Green – Harvesting & Marketing Officer, Forest Enterprise Scotland
Jim Lyon – East Anglia Forest District Manager, Forest Enterprise England
Mike Southworth – Head of Finance, Forestry Business Units
Frank McCulloch – Head of Forestry Civil Engineering Business Unit
Geoff Freedman – Bridge Consultant, Forestry Civil Engineering
Paul Mudway – Country Civil Engineer, England
Forestry Civil Engineering Management Board
Jeffrey Livingston – Head of Mechanical Engineering Services Business Unit
Mechanical Engineering Services Management Board
Derek Smith – Head of Radio & Electronics Branch
Iain Fleming – Fleet Engineer, Mechanical Engineering Services
Geoff Hodgson – Operational Mechanical Engineer (OME), England and Wales
Richard Earle – Business Sustainability Advisor and OME, Scotland
Alistair Smart – Manager, Balnacoul Workshop, Moray and Aberdeen
John Morgan – Head of Plant & Seed Supply Business Unit
Peter Everitt – Production Manager England, Plant & Seed Supply Branch
Alan Duncan – Nursery Manager, Newton Nursery
Richard Parsons – Production Manager, Delamere Nursery
Graham Hunter – Production Manager, Wykeham Nursery
Eric Holmes – Head of Procurement, Forestry Commission
Jim Galloway – Head of Management Accounting, Forestry Commission
Forestry Business Units (FBU) Staff Council
Alistair Gillies and Bruce Hamilton, representing the FBU trades unions
Stuart Goodall – Chief Executive, ConFor
Colin Mann – Managing Director, Scottish Woodlands
Rodney Shearer – Managing Director, Alba Trees
James Hepburne Scott – Sales Director, Alba Trees
Ronald Christie, Christies of Fochabers
Mike Harvey – Managing Director, Maelor Nurseries
Lee Mathison, Category Manager – Fleet Services, OGC Buying Solutions
Kevin Kirkland – May Gurney Framework Manager, British Waterways
Eddie Quinn, British Waterways Framework Director, May Gurney
Michael Moylan – Procurement Strategy Manager, Environment Agency
Dale Eynon – Head of Fleet Operations, Environment Agency
Andy Ormerod – Plant and Fleet Director, Balfour Beatty

Unsuccessful attempts were also made to consult:

Steve Lavery – Managing Director, Tilhill Forestry
Gil Kelly – Fleet Management Director, Carillion

3. Operating Models

The “operating model” concept was originated by James (Jim) Champy and Michael Hammer in their *Reengineering the Corporation*. It provides a convenient picture of the components of an organisation and the need for them to be aligned with each other:



Different organisations need to prioritise different elements, generally designing their core processes to match the purpose and desired outcomes, be they commercial, policy, service delivery or other.

Commercial Business

The key characteristics of a typical private sector business are:

- Profit-making orientation
- Short-termism
- Staff turnover
- Competition

while the operating model typically emphasises:

- **Core processes**
 - ▶ Creating a pool of aware prospects
 - ▶ Converting a prospect into a customer
 - ▶ Delivering agreed service to customer
 - ▶ Managing cash flow and other “infrastructure”
- **Organisation** includes
 - ▶ Sales people
 - ▶ Commercial functions
 - ▶ Marketing (including pricing and promotion)
- **Culture & Values** support
 - ▶ Risk-taking
 - ▶ Profit-making
 - ▶ Short-term thinking
 - ▶ Staff turnover
- **Information & Technology**
 - ▶ Market intelligence
 - ▶ Competitor analysis
- **Management Systems**
 - ▶ Delegated authority
 - ▶ Performance management
 - ▶ Bonus/reward systems

Public Sector

Key characteristics of public service in general and the FC in particular:

- Policy orientation
- Long-term view (especially forestry!)
- Stability
- Conservative

with an operating model that emphasises:

- ▶ **Core processes**
 - Forest management
 - Harvesting and marketing
 - Forest policy development
 - Delivering grants
- ▶ **Organisation**
 - Forest managers
 - Policy advisers
 - Long service
- ▶ **Culture & Values**
 - Forester is king
 - Public service ethos
 - Long-term
 - “Conservative”
- ▶ **Information & Technology**
 - Forest data
 - Communications infrastructure
 - Transparency/Fol
- ▶ **Management Systems**
 - Multiple boards
 - Business planning
 - Civil service terms