

# PUBLIC FOREST ESTATE ENGLAND



The Public Forest Estate is the largest single land holding in England with a total of 258,000 hectares of land. This represents two per cent of the land and 18 per cent of the woods and forests in England. The Public Forest Estate is the largest producer of timber in England with approximately 1.4 million cubic metres sold a year and, the largest single provider of countryside recreation with 40 million visits a year in England. It is also the largest manager of land in protected areas (National Parks, Areas of Outstanding Natural Beauty, Sites for Special Scientific Interest), and a significant provider of ecosystem services. There is a realistic potential for 490MW of unexploited wind power reserves on the estate.

## Overview

The Public Forest Estate is owned by the Secretary of State for Environment, Food and Rural Affairs. Its management is entrusted to the Forestry Commission with day-to-day activities undertaken by its agency, Forest Enterprise.

The estate was originally established in the first half of the twentieth century to help provide a strategic reserve of timber after woodland cover fell to less than five per cent during the First World War.

Over the last 20 years the Forestry Commission has transformed the estate and its management

arrangements to serve multiple objectives across government and provide a wide range of public services within a strong sustainable development framework. The estate combines a highly diverse mixture of forests and woodlands across England, 40 per cent of which is priority habitats including ancient woodland, heathland, and bogs.

## Existing Commercial Activities

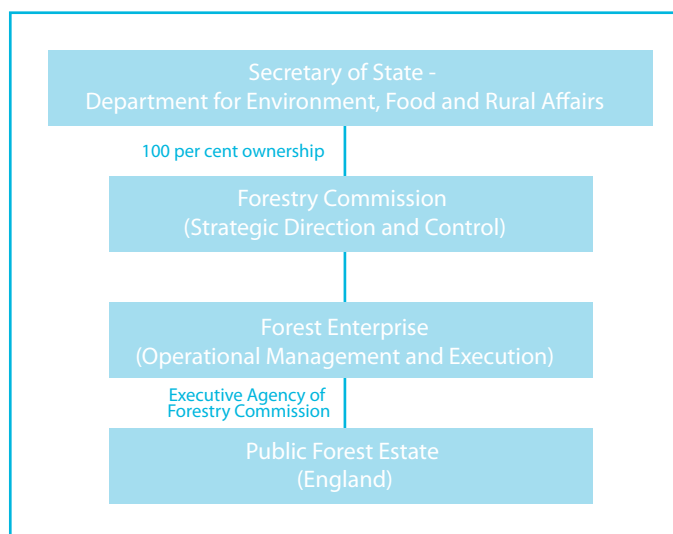
The Forest Estate covers 258,000 hectares (20 per cent of England's woodlands) and is the largest individual land holding in England. The sale of forest products and services currently fund approximately 70 per cent of the programmes on the estate. Also, approximately 70 per cent of operations are undertaken by the private sector as contractors or joint venture partners.

Approximately 1.4 million cubic metres of timber is sold every year meeting approximately 60 per cent of the demand from indigenous timber producers in England.

In-house management of leisure activities is supported by a wide range of joint ventures with private sector business providing value-added services.

Additionally receipts are generated from the estate through the sale of surplus assets, housing and other built development, mineral exploitation, and sites for mobile communication masts.

## Ownership and Organisational Structure



The Forestry Commission is the government department responsible for advising ministers on forestry policy. The Forestry Commissioners are statutorily responsible for the stewardship of the estate.

## Operational Performance

	2009	2008	2007
Total Area of Land Managed in England (000s hectares)	258	259	258
% Woodland Independently Certified for Sustainable Forest Management	100	100	100
% SSSIs in Favourable Condition	95	90	85
Volume of Timber Sold (cubic metres)	1,392,000	1,491,000	1,489,000
Headcount <sup>1</sup>	954	959	969

Source: Forestry Commission England – Corporate Plans (year ending March)

<sup>1</sup> Refers to headcount of Forest Enterprise England

## Financial Performance

£ million	2009	2008	2007
Turnover	49.1	51.3	44.2
EBITDA	(19.2)	(17.8)	(15.5)
Operating Profit / (Loss)	(21.4)	(19.9)	(17.6)
Net Profit / (Loss)	(21.4)	(19.9)	(17.6)
Net Operating Cash Flow After Interest and Tax	(20.1)	(19.2)	(23.5)
Gross Capex (Tangibles)	(4.3)	(5.8)	(5.8)
Net Operating Assets	767.8	611.5	507.2
RONA	(2.8%)	(3.3%)	(3.5%)
Shareholders' Funds	764.8	608.5	504.0

Source: Forest Enterprise England annual report (year ending March)

Financial performance is shown before any exceptional items and cost of capital charge

## Comments

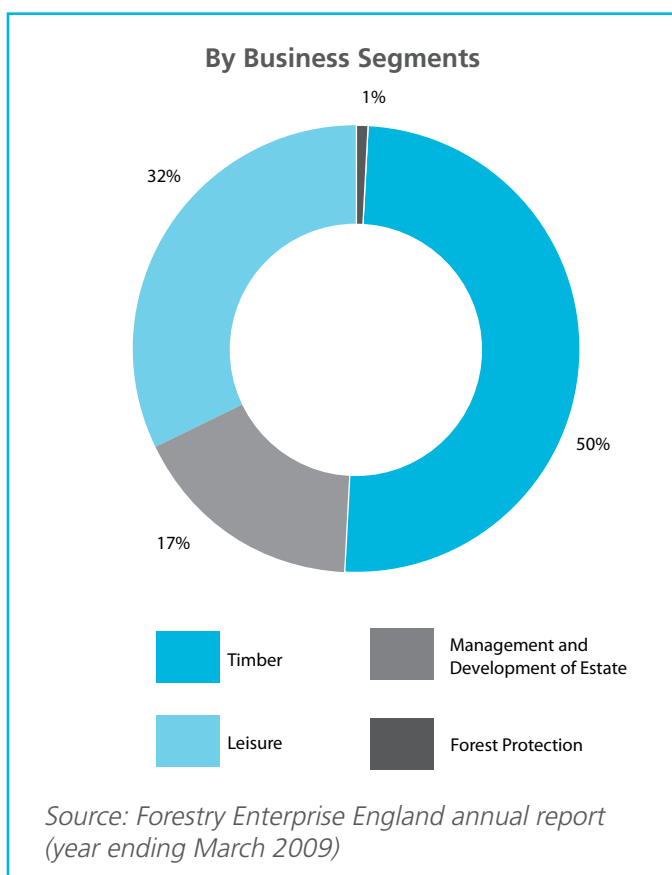
The Public Forest Estate is required to fulfil a number of policy objectives set by Ministers. A number of these objectives are non-commercial and are not paid for by recipients of the services.

These policy objectives require Forest Enterprise to incur expenditure towards forest protection and maintenance, as well as towards recreation, conservation and heritage.

To maintain the public benefit sustainably (i.e. reduced reliance on the public purse), Forest Enterprise is focusing on developing new lines of income for the future. This is in addition to focusing on extracting efficiency savings from existing operations, including:

- planning for renewable energy options to exploit the wind resource on its land – this has the potential to derive substantial revenues after an initial gestation period;
- focusing on improved models for timber management and commercial leisure operations to deliver efficiency savings; and
- portfolio analysis of the entire Forest Estate to show how individual woods help deliver the Government's objectives and contribute financially, and where they offer new commercial opportunities.

## Analysis of Turnover



## Policy Objectives

### Overall objective

The strategic direction as set by the Department for Food, the Environment and Rural Affairs ministers is, "To secure a healthy environment in which we and future generations can prosper."

### Sustainable resource

To provide in England, a resource of trees, woods and forests in places where they can contribute most in terms of environmental, economic and social benefits now, and for future generations.

### Climate change

To ensure that existing and newly planted trees, woods and forests are resilient to the impacts of climate change, play a role in adapting rural and urban environments to those impacts, and contribute to their mitigation.

### Natural environment

To protect and enhance the environmental resources of water, soil, air, biodiversity and landscapes (both woodland and non-woodland), and the cultural and amenity values of trees and woodland.

### Quality of life

To increase the contribution that trees, woods and forests make to the quality of life for those living in, working in or visiting England.

### Business and markets

To improve the competitiveness of woodland businesses and promote the development of new or improved markets for sustainable woodland products and ecosystem services where this will deliver identifiable public benefits, nationally or locally, including the reduction of carbon emissions.

### Regeneration and tackling deprivation

To provide new green space around cities, regeneration and growth areas.



### **Sustainable rural communities**

To provide the infrastructure and a supportive framework for hundreds of micro, small and medium scale enterprises (particularly involving tourism and the timber industry).

### **Considerations for policy delivery**

The Public Forest Estate today is the largest means available for the Government to engage directly in land management to deliver its objectives.

The Government is committed to retaining a publicly owned forest estate and wishes to sustain public benefits irrespective of future management arrangements.

Under current legislation the government is able to dispose of land for any purpose provided the Public Forest Estate continues to occupy a substantial proportion of England's forest resource. Additionally private sector investment in commercial opportunities is possible through joint ventures and equivalent vehicles.

Ministers are currently undertaking a study to consider the future long-term sustainable role for the Public Forest Estate.





### Alternative Asset Options

There may be scope to generate greater commercial benefit from existing opportunities such as timber and leisure and/or new and innovative opportunities such as renewable energy.

Alternative means for funding operations include:

- long-term lease;
- funding from long-term partners in commercial activities in a joint venture or special purpose vehicle; and
- funding from long term partners in ecosystem services.

### Other Considerations

The scope of the estate is constrained by reduced public spending, and obligations to Government policies which are increasing net operating costs.

The recession is having an impact on timber business which is currently the largest source of commercial income.

There is a need to further diversify away from timber and expand into other promising areas like renewable energy, leisure, housing and other built development. However, there is

limited public finance available to fund increased investments required to pursue new commercial opportunities.

There is a mix of long- and short-term contracts already in place with indigenous timber processors currently sourcing the majority of their timber requirements from Public Forest Estate timber.

### Private Sector Opportunity

It is envisaged that the public and private sectors can work together while maintaining current policy objectives and benefits to the public. Public Forest Estate offers a potential opportunity for private sector investors to generate long-term stable returns while maintaining a socio-economic balance within the mix of its activities through:

- participation in existing commercial opportunities (e.g. timber, leisure) via a joint venture or lease;
- participation in the development of new renewable energy business via a joint venture; and
- investment opportunity in forest estate via a special purpose vehicle to benefit from non-volatile and low-risk nature of the underlying assets.

*For further information, please refer the Forestry Commission website <http://www.forestry.gov.uk> – England section.*

*Any enquiries can be directed to the Shareholder Executive at [shex.oep@bis.gsi.gov.uk](mailto:shex.oep@bis.gsi.gov.uk).*