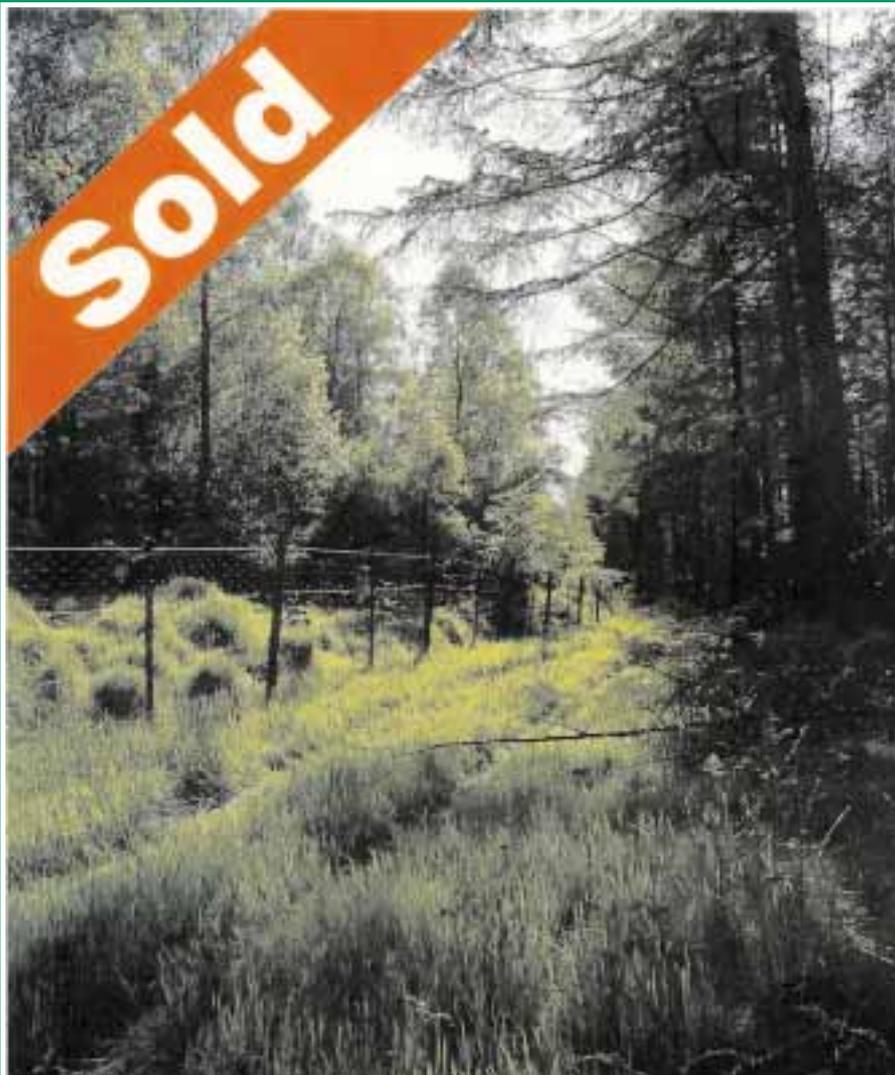


Disposal of Forest Land



This report has been prepared under Section 6 of the National Audit Act 1983 for presentation to the House of Commons in accordance with Section 9 of the Act.

John Bourn
Comptroller and Auditor General

National Audit Office
3 April 1998

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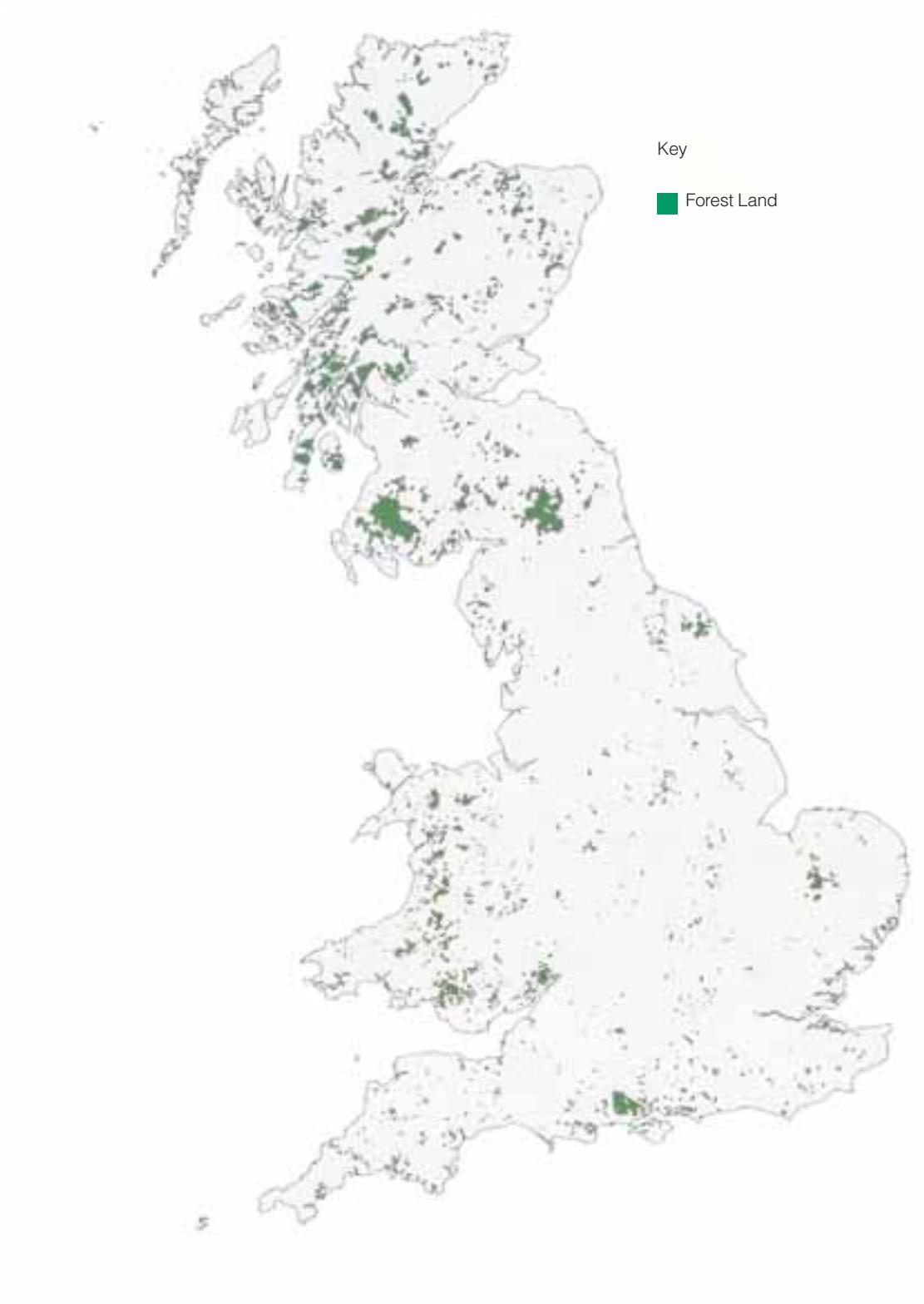
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Forest Land managed by the Forestry Commission



Executive summary

Introduction

1 The Forestry Commission (the Commission) manage 1.1 million hectares of land throughout Britain, of which 850,000 hectares are planted with trees and are valued at £1,560 million. Management of the forest is delegated to Forest Enterprise to meet environmental, financial, social and other objectives sought by Ministers. In June 1989 the Government announced that the Commission would sell 100,000 hectares of forest land and properties by the end of the century, and realise up to £150 million.

2 The Commission were to identify areas of forest land for disposal in accordance with criteria set by Ministers. The main criteria involved rationalising the forest estate, maintaining public access to forests and meeting market preferences.

3 We examined: whether the Commission established a programme of disposals to meet Ministerial targets and addressed key selection criteria, and whether sales of forest land were conducted in accordance with best public sector practice.

Establishing the Disposal Programme

Achieving Programme Targets

4 The Commission have made significant progress towards their sales target of 100,000 hectares. By March 1997 they had sold 66,000 hectares and a further 40,000 hectares were ready to be placed on the market. By the same date sales had generated £75 million and the Commission were estimating receipts of a further £45 million during 1997-98 and 1998-99. Government also planned for a further £40 million in 1999-2000 but this reflected a sales programme beyond the 100,000 hectare target.

Selecting Forest Land for Disposal

5 Between 1989 and 1994, to reflect the Government's changing priorities in the selection of land for disposal to emphasise market preference and public access, the Commission removed some 24,000 hectares of forest from the programme and replaced them with a different 31,000 hectares. This also resulted in a transfer of some 5,000 hectares for disposal from England to Scotland.

6 Because the Commission have found it difficult to maintain public access to forests which they sold, the Government introduced a presumption against the sale of any forest with important public access unless that access can be guaranteed. We found scope to widen the Commission's assessments of the importance of public access. We also found that New Zealand had issued licences for managing forest land as a form of renewable long-term lease and as an alternative to freehold sale which maintained public access to state forests after disposal. But the Commission consider that this would not have satisfied the Ministerial directive to sell forests.

7 Since 1989 the Commission have consistently recognised improvements in forest efficiency and commercial effectiveness as key features of the rationalisation of their estate, and this has helped them to improve outturn against their performance measures. In 1994 the Commission responded to an emerging shift in market preference by requiring their Regions to identify larger forests for disposal.

8 To meet the criteria set by Ministers the Commission decided to spread the impact of disposals across Great Britain, and to set specific targets for each Region. The Commission produced guidance for their Regions on the selection of areas for disposals. Each Region interpreted disposal guidance independently to meet their individual local targets. We found that local managers were selecting forests which best addressed the circumstances in their area. However, because decisions were delegated to Regions, the aggregated results did not represent the optimal selection for the Commission's estate as a whole, and therefore did not maximise the potential efficiency gains across Great Britain. The Commission are considering introducing a scoring system for forest land to assist Regions in selecting areas for disposal.

Costs and Benefits of Disposals

9 The Commission do not measure the costs and benefits of sales. They consider that, since sale prices reflect the investment value of the growing stock of trees, the long-term return from the forest estate is unaffected by disposals. However, some areas of forest are more expensive to maintain than others and the quality and value of growing timber can vary significantly.

10 Rationalisation of the estate is expected to improve efficiency. We found that the Commission's selection of forest areas for sale made particular reference to rationalisation and maintaining public access but other factors such as income generation and market preferences were also considered. The Commission did not, however, quantify the financial impact of selection decisions although the effect on their future management costs and key financial performance measures could be significant. We examined a sample of woodland from three Forest Districts comprising areas identified by the Commission for sale and for retention. We found that if the Commission disposed of the 2,100 hectares contributing least to their financial surpluses they could generate £0.5 million more in surpluses in the period up to 2004, and £1.1 million up to 2014, than they would by selling forest areas already selected for disposal. Whilst these results cannot be extrapolated across the 100,000 hectare disposals programme, disposals in other forest districts may not have maximised surpluses in the short to medium term because other factors, where the financial impact could not be measured, were judged to be of more importance.

Managing the Disposals

11 We examined 174 of the 1,450 sales completed by the Commission between 1989 and 1996 (41 per cent by value) and assessed them against best practice recommended by the Public Accounts Committee.

Sale Preparation

12 Large areas of the Commission's forest estate are subject to lease constraints or poor accessibility and disposals should only proceed when they are satisfied that all legal constraints and access questions have been identified. Pre-sale preparation was generally handled well, 78 per cent (84 per cent by value) of cases we examined being completed within nine months of offer acceptance. But four per cent of the cases we examined (with sales values totalling £670,000) exhibited delays which could have been avoided through better preparation.

13 The Commission prepared guidance on setting a reserve price for each sale and 97 per cent of the cases we examined complied with the guidance. In 31 cases offers were accepted at least two years after the reserve price had been set. The Commission told us that the delay arose because there was no market interest in the property at the Commission's asking price and that it was unlikely that the reserve value would have been affected by the delay.

14 The investment value of a forest area is calculated using assumptions about future costs and income from the forests, discounted to provide a Net Present Value. We found that in ten out of the 86 cases (with sales values totalling £5.5 million) we examined involving investment values the Commission had reduced their valuation (by a total of £1.8 million). This was either as a result of revised assumptions about forestry operations or the quality of the growing timber, or as a result of revised discount rates approved by the Treasury.

Maximising Sales Proceeds

15 We found that 127 (82 per cent by value) of the cases in our sample had been concluded after full open market competition. In the remainder of cases, involving sales to existing leaseholders or organisations such as the Woodland Trust, the Commission had used independent valuations from the District Valuer to inform negotiated prices. The total sales value in our sample exceeded reserve price by 18 per cent. Sale price exceeded reserve in 81 per cent of cases.

Control over Sales

16 We found that sales were properly controlled, with sound delegation of authority which involved senior managers in key decisions.

17 The cost of sales between April 1992 and March 1997 totalled £11 million (15 per cent of sale proceeds). Costs have varied significantly against the Commission's annual budgets mainly because of additional sale preparation on matters such as public access. Since 1995, agents for larger sales have generally been appointed after tender resulting in reductions in agents fees of 30 per cent. Similar reductions were generated in 1996 when the Commission last market tested legal services work in Scotland. The Commission have not market tested contracts with the District Valuer or for legal services provided in England and Wales.

Recommendations

18 We recommend the following examples of good practice which could be applied to further disposals of the forest estate:

- 1 When disposing of assets, the Commission should set out clearly the major strategic objectives and targets to be achieved, and define the associated criteria to be applied in selecting assets for sale. This is particularly important when a disposal programme is expected to extend over a number of years and when broad aims such as rationalisation are involved.
- 2 Every attempt should be made to quantify the costs and benefits of decisions taken to select assets for disposal. Where complete quantification is not possible, the Commission should quantify the costs and benefits which can be established to provide a benchmark for judging more subjective criteria. Thus the value of retaining a site for public access reasons could be assessed against its continuing maintenance costs.
- 3 Where outright sale of an asset inhibits the achievement of a disposal objective - such as in the case of preserving public access to forests - the Commission should consider alternative methods of transfer. Leasing, as used by the New Zealand Forestry Corporation, could help contribute towards achieving the Commission's multi-purpose objectives through helping to protect public access and could also be used as a means to rationalise the forest estate.
- 4 By delegating disposal decisions to local offices, there is a danger that the Commission may miss opportunities to maximise efficiency savings arising from rationalisation of the forest estate at a national level. The Commission should, therefore, carefully monitor regional programmes to ensure that in aggregate they achieve national objectives.

- 5** Delays in the completion of sales after bids have been accepted can result in lost revenue. The Commission should make every effort to identify and evaluate potential difficulties with legal title before marketing commences.
- 6** Costs associated with major disposals can be significant. The Commission have already demonstrated savings through tendering for some professional services. They should consider whether other work undertaken by agents could be exposed to competition to ensure value for money.

Part 1: Introduction

Background to the Forestry Commission

1.1 The Forestry Commission (the Commission) were established in 1919 to provide the United Kingdom with a strategic reserve of growing timber. Over the years they have bought areas of land and inherited others from a variety of sources. While the Commission acquired large blocks of land to create extensive man made forests such as the Keilder plantation in Northumberland, much of the land available for the Government's policy to re-establish the country's depleted woodlands was in smaller blocks spread throughout Great Britain. The Commission's estate now extends to 1.1 million hectares of which 850,000 hectares are planted with growing timber. At 31 March 1997 the estate was valued at £1,560 million.

1.2 Since 1967 the Commission have been given additional commercial, social and environmental objectives. Under legislation now consolidated mainly in the Forestry Act 1967, the Commission are responsible for promoting the interests of forestry, establishing and maintaining adequate reserves of growing trees and producing timber. The Countryside Act 1968 and the Wildlife and Countryside (Amendment) Act 1985 provide the Commission with additional statutory duties to provide tourist, recreational and sporting facilities and to manage trees in the interests of amenity whilst seeking to achieve a balance, in carrying out their functions, between the needs of forestry and the environment.

1.3 The Commission delegate management of the forest estate to Forest Enterprise. Forest Enterprise operate as a trading body primarily responsible for the management of the Commission's forests but with other functions, such as the protection and enhancement of the environment and the provision of recreational facilities.

1.4 Forest Enterprise became an executive agency in April 1996. The aim of the agency is:

`to produce the environmental, financial, social and other outputs sought by Ministers and the Forestry Commissioners in a way which meets the Government's objectives and international commitments and sustains both the environmental quality and productive potential of the forest estate, and to offer efficient services'.

This aim is reflected in a series of objectives and measures covering the agency's financial, environmental and efficiency performance (Appendix 1). During 1996-97, Forest Enterprise employed some 2,700 staff, earned income of £123 million (including £104 million from sales of timber and other forest sales) and incurred expenditure of £116 million (including £84 million on costs related to forest estate operations).

1.5 Forest Enterprise is organised into a three-level structure designed to match overall policy for multi-purpose objectives and day-to-day management of forest assets (Figure 1).

Disposal of the forestry estate

1.6 Following a review of forestry policy in 1980, Ministers concluded that the Commission should sell a proportion of their forest estate to meet Government objectives to expand the private forestry sector and reduce the Commission's annual call on Exchequer funding of approximately £100 million (at 1996-97 prices). The Forestry Act 1981 provides Ministers with powers to dispose for any purpose of land acquired for purposes connected with forestry except in the Forest of Dean where more limited powers exist.

1.7 Ministers initially set the Commission a target to generate £82 million from the disposal of forest land for the six year period to March 1987. In order to inform the selection of areas for disposal, Ministers issued guidance to the Commission in 1981 (Figure 2 on page 10) which listed a series of criteria for selecting land for disposal. In 1984 Ministers decided to extend the disposal programmes to 1989 and that its main purpose should be the rationalisation of the estate with a view to improving the Commission's efficiency and the commercial effectiveness of the Forestry Enterprise. During the period 1981 to March 1989, 70,000 hectares of forest land were sold. In the same period the Commission also sold 68,000 hectares of unplanted land plus surplus buildings which were not part of the Ministerial disposal target. Total receipts from all types of disposal amounted to £120 million.

1.8 Ministers viewed the results of the first disposal programme as a success. They considered that scope existed to continue with rationalisation of the forest estate with the added effect of strengthening and enhancing the role of the private forestry sector. Consequently, in 1989, they introduced a new target for the Commission to dispose of 100,000 hectares of forest land in the period up to the end of the century. Disposals were, subject to market factors, expected to generate up to £150 million (Figure 3 on page 11).

Figure 1 Forest Enterprise organisational structure

Forest Enterprise is headed by a Chief Executive supported by a Management Board comprising the senior management team. It is structured into a Head Office, 5 Regions and 38 Forest Districts

Head Office

The overall responsibility for the efficient and effective management of Forest Enterprise rests with the Chief Executive located at the Head Office in Edinburgh.

Head Office has three primary functions, the development of operating strategy and accounting policies, performance monitoring and reporting, and the provision of centralised corporate services to the Regions and Districts.

Regions

There are five Regional offices, each in the charge of a Regional Director, located at Aberystwyth, Bristol, Dumfries, Inverness and York. The Regions have maximum autonomy, subject to the Chief Executive's corporate strategy and policy, and operate as business centres with performance targets agreed with the Chief Executive. Regional Office functions include setting Forest Districts' targets, agreeing their business plans and monitoring performance, and the provision of Regional services for roading and property management.

Forest Districts

There are 38 Forest Districts, each in the charge of a Forest District Manager and accountable to one of five Regional Directors. Forest Districts are front-line management units, responsible for the implementation of agreed plans in the most cost effective and efficient manner, maximising revenue opportunities and making the best use of assets within the limitations imposed by policy. Specific functions include forest design and production planning, management of forest operations, contract control and public relations.



Position at 31 March 1997	North Scotland	South Scotland	Wales	North & East England	South & West England
Total area managed (ha)	416,867	260,603	131,317	158,789	105,462
Forest area (ha)	302,107	200,708	119,720	134,646	86,516
Planted during 1996-97 (ha)	1,689	2,278	1,972	1,628	611
Production during 1996-97 (000 m3)	1,193	961	1,009	940	559

Figure 2

Guidelines on the selection of areas for disposal

Letter from the Rt Hon George Younger MP, Secretary of State for Scotland

Sir David Montgomery Bt, JP, DL
Chairman
The Forestry Commission
231 Corstorphine Road
Edinburgh
EH12 7AT

12 May 1981

As you know, the Forestry Bill will allow Ministers to dispose of any land acquired by them for forestry purposes under Section 39 of the Forestry Act 1967. This new provision is designed to enable land and plantations to be sold by Forestry Ministers in order to meet the Government's objectives of progressively reducing the Commission's calls on Exchequer funds for the management of the Forestry Enterprise. As in the case of the present limited disposals powers in the 1967 Act, the new power will be exercised on behalf of the Forestry Ministers by the Commissioners.

In meeting the stated objective the Commissioners will be responsible for selecting areas for disposal and for deciding whether disposal should be by sale of the freehold (outright sale in Scotland) or by sale and leaseback. The purpose of this letter is to set out the main considerations which Forestry Ministers would wish the Commissioners to take into account in the selection process. They are not in any order of precedence.

- (a) the financial implications including the need for disposal to be fully in accordance with the principles of public accountability;
- (b) the maintenance and development of the wood processing industry;
- (c) the maintenance of employment and the viability of local communities, especially in socially fragile areas;
- (d) the use of forests for public access and recreation;
- (e) the interests of conservation, research and education;
- (f) market preferences;
- (g) the effect on efficient management of the Commission's remaining land holding;
- (h) the rationalisation of the forest estate;
- (i) the procedures for 'offer back' to former owners which are generally in force for the disposal of Government property in the case of freehold or outright sales, to be extended as appropriate to areas held on lease by the Forestry Ministers if any of these are selected for disposal.

In addition, the Commissioners should have regard to the following:

- (a) the special status of the former Crown land in the New Forest and Forest of Dean where disposals will, as hitherto, be on a very limited scale.
- (b) the undertaking given by the Forestry Ministers that in the case of plantations on land originally leased from the National Trust and still owned by them, the lease will not be assigned without the Trust's consent. This will similarly apply to properties leased from the National Trust for Scotland.
- (c) the need to consult the Forestry Ministers in the event of potentially significant aggregate sales to foreign or multi-national buyers.

The terms of this letter have been agreed with the Secretary of State for Wales and the Minister for Agriculture, Fisheries and Food.

Extension of the disposal programme

Figure 3

Announcement made by the Rt Hon Malcolm Rifkind MP, Secretary of State for Scotland on 16 June 1989

“We welcome the important contribution that the rationalisation of the forestry estate has made to increased efficiency of the Forestry Enterprise over the last few years. The Commission has been able to dispose of a large number of plantations in a way which has assisted the streamlining of its management structure and enabled it to achieve significant improvements in its operational efficiency. The annual net call on Exchequer funds for the Enterprise has been greatly reduced. At the same time the Commission has been able to make an important contribution to the major new developments which have taken place in the wood processing industry in recent years. The market for timber is now buoyant, to the great benefit of both public and private sector timber-growers.

My Right Hon Friends and I have considered the future extent and purpose of the Commission's disposal programme. We have had regards to the needs of the wood processing industry for a steady and secure source of supply; to the effect of the programme on the use of the Commission's forest for public access and recreation; and to environmental considerations. We also accept that the Commission must be able to plan ahead without the uncertainty caused by frequent reviews, and that it will continue to make a small but effective contribution towards the fulfilment of our targets for new planting.

We consider that the rationalisation policy has been successful and that there is scope for it to continue to be pursued with vigour. In accordance with the general policy of this Government, we also wish to see some further transfer of our forests out of the public sector. This will have the important effect of strengthening and enhancing the role of the private sector, whose proportion of the nation's woodland estate has already risen by over 60 per cent. We also see it as a valuable opportunity to widen interest and participation in British forestry.

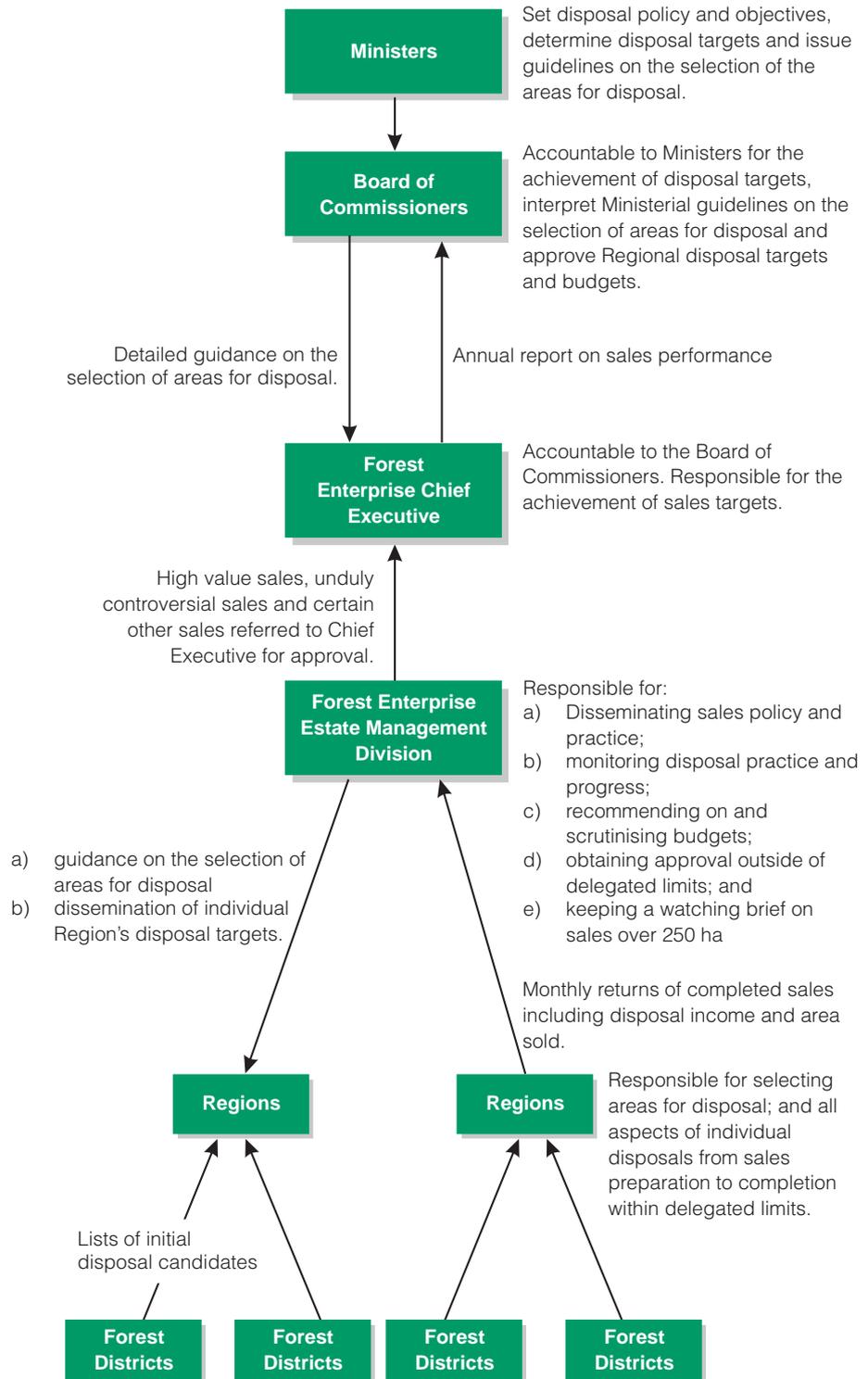
We have therefore asked the Forestry Commissioners to proceed with the further disposal of some 100,000 hectares of forestry land and properties in the period up to the end of the century, of which they should seek to dispose of some 50,000 hectares in the first half of the period. The Commissioners will continue to be responsible for the selecting properties for sale, and in doing so they will have regard to the selection guidelines which Forestry ministers set them in 1981. In particular I have referred to the use of the Commission's forests for public access and recreation, which my Right Hon Friends and I warmly support and encourage. Forests have a major part to play in the enjoyment and understanding of the countryside and the Commission will continue to have an important role in this.

We are concerned, however, that the general public should also continue to enjoy access to those forest to be disposed of by the Commission in a way which is compatible with management for forestry and other purposes. We are therefore giving careful consideration to ways of achieving this objective.

1.9 The Commission's Board of Commissioners have issued guidance to senior managers on the selection of land for disposal in line with the Ministerial guidance issued in 1981. The respective roles and responsibilities in the sales process are set out in Figure 4.

Roles and responsibilities in the disposal of forest land

Figure 4



Source: Forestry Commission
April 1995

1.10 Prior to the May 1997 General Election the Commission suspended disposal activity on all areas in the programme where no offer had been accepted. Sales have not since resumed.

Costs and benefits of the forest estate

1.11 The Commission's forests are required to meet a range of diverse objectives each of which confers different costs and benefits to the forest as a national asset. The Commission do not distinguish between individual parts of the forest estate according to the objectives each addresses, because they consider that all forests are capable of contributing to each objective. In practice however, the emphasis placed on specific objectives will vary between forest areas: for example many large conifer plantations are managed predominantly for timber production, whilst in areas such as the New Forest greater emphasis is given to recreation, conservation and heritage management. The extent to which each forest contributes to the achievement of the Commission's aims and objectives is a major consideration in deciding which areas of forest estate to sell.

Scope of the National Audit Office examination

1.12 Against this background we examined:

- whether the programme of disposals of forest land met Ministerial targets introduced in 1989 and addressed key selection criteria; and
- whether sales of forest land were conducted in accordance with best public sector practice.

1.13 We examined documents and interviewed staff at the Commission's Headquarters and at Regional levels, focusing our analysis on performance and sales completed since 1989. We employed Jaakko Poyry - a firm of Finnish based international forestry consultants - to provide advice on forestry disposal matters and commissioned ERM (Scotland) - environmental consultants - to provide advice on the Commission's assessment of the importance of public access. In addition, we held discussions with the Forestry Industry Council of Great Britain, the Ramblers Association and a number of sales agents appointed by the Commission. The main features of our examination are summarised in Appendix 2.

Part 2: Establishing the Disposal Programme

How did the Commission prepare for the disposal programme?

2.1 This part of our report considers how well the Commission established a programme of disposals to meet the target of disposing of 100,000 hectares of forest land, taking account of selection criteria set by Ministers.

The Commission were responsible for identifying areas of forest for disposal. They initially spread the impact of disposal across their forest estate by their Regions selecting areas for disposal in proportion to their share of the estate. Regional targets formed the basis of annual plans to achieve the overall 100,000 hectare target.

2.2 The Commission required each of its Regions to prepare disposal strategies and propose areas for disposal. The Commission issued detailed selection criteria based on their interpretation of the 1981 Ministerial guidelines for selecting areas for disposal and decided that each of their Regions should contribute an area for disposal in proportion to the area of estate they managed. This continued the practice applied to earlier disposals and reflected the Commission's aim of distributing the impact of disposals evenly across Great Britain.

2.3 The total area of land proposed for disposal formed the basis of each Region's contribution to the 100,000 hectare target and the Commission approved a target for each Region covering the period up to the year 2000. In order to monitor progress, the Commission used annual plans which indicated how much land each Region was expected to sell.

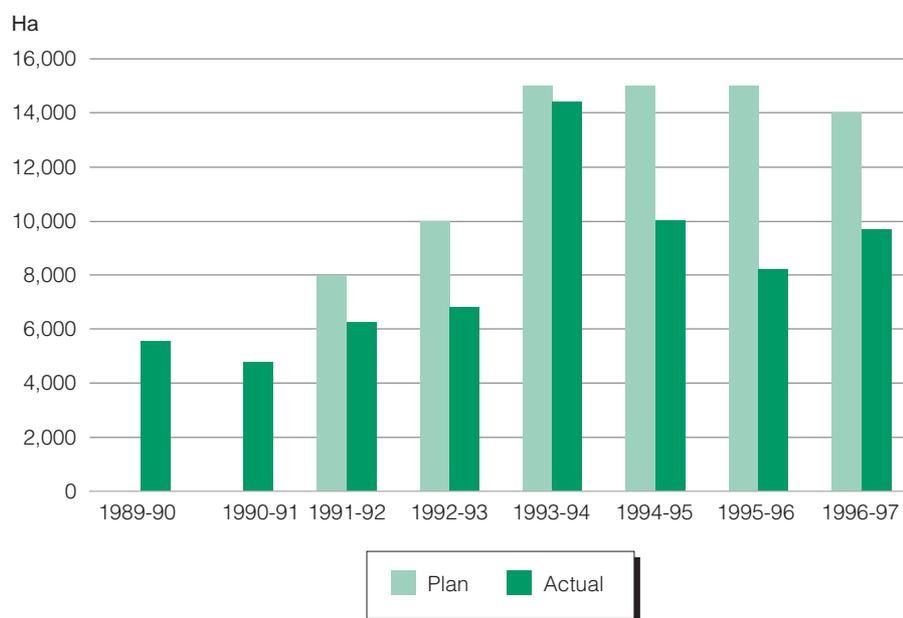
Did the Commission's disposal plans ensure programme targets were achieved?

Despite shortfalls against annual plans, the Commission had sold 66,000 hectares by March 1997, were marketing a further 20,000 hectares, and expected the amount of woodland on the market to increase to 40,000 hectares by June 1997. Income of up to £150 million was expected from the programme although the Commission subsequently estimated that proposals to protect public access would reduce disposal receipts by £10 million. By March 1997, when sales were suspended prior to the May 1997 General Election, receipts from the disposal of forest land had generated £75 million and the Commission estimated that future sales of forestry and other assets would generate a further £45 million.

2.4 By March 1997, the Commission had sold 66,000 hectares of forest land against the 100,000 hectare target. They experienced difficulties in meeting plans for the early years of the programme (Figure 5), and the level of sales achieved by the Regions fell short of that expected in each of the six years between 1991-92 and 1996-97. The main reasons for shortfall were delays in marketing properties to accommodate policy changes (Case Study A) and poor market conditions (Case Study B).

Forest land areas sold since 1989-90

Figure 5



Source: Forestry Commission

The Commission set annual area plans following the introduction of the Ministerial target to dispose of 100,000 hectares of forest land between 1989 and the end of the century. No plans were set for 1989-90 and 1990-91.

2.5 In order to avoid shortfalls against annual plans which might adversely affect achievement of the overall target, the Commission set disposal targets for the Regions which, if achieved, would cumulatively exceed the 100,000 hectare target. In 1996, Regions were asked to prepare all remaining areas for sale and commence marketing of individual plots as soon as was practicable. Annual plans assumed the overall target would be achieved by 1998-99. By March 1997 the Commission were marketing 20,000 hectares of land and by June 1997 a further 20,000 hectares were ready for marketing. In March 1997, and prior to the May 1997 General Election, the Commission suspended activity on any disposals where no offer had been accepted.

Case Study A: Heathy Field Coppice, Dorset

This broad-leaved wood is a typical rationalisation sales candidate being small (4 hectares), remote from the Forest District office and some distance from the nearest public road.

In September 1993, the Commission's South and West England Region wrote to the leaseholder informing her of the Commission's intention to dispose of the wood and offering her the opportunity to purchase under the terms of the lease. The lessor replied she was interested in purchasing.

However, following discussions with Ministers, the Commission instructed their Regions in March 1994 to back off potentially sensitive sales whilst they developed revised procedures for classifying public access

(see paragraph 2.17). The Region interpreted these instructions by not putting any new sales on the open market and stopping the sale of any areas likely to provoke strong reactions over public access whilst continuing to work up other areas for disposal up to the point of marketing.

As a consequence, the District Valuer was not commissioned to value the woods until January 1995. A sale price was agreed in August 1996 and the sale completed in January 1997.



Case Study B: Moel Groes-Heol, Powys

This wood consists of 125 hectares of mixed conifers planted between 1960 and 1963. Timber growth is slow due to poor soils and access is limited due to steep gradients. The difficulty of the terrain is also likely to lead to additional harvesting costs.

Marketing of the wood (as one of two lots) commenced in March 1991 with an asking price of £200,000. Little interest was received although an offer of £160,000 for both lots was received in October 1991 and again for Moel Groes-Heol alone in May 1992 for £130,000.



In November 1992 the Commission's Wales Region withdrew the parcel from active marketing due to lack of interest. The Region intended to recommence marketing 12-18 months later in the hope that interest would improve in the interim period.

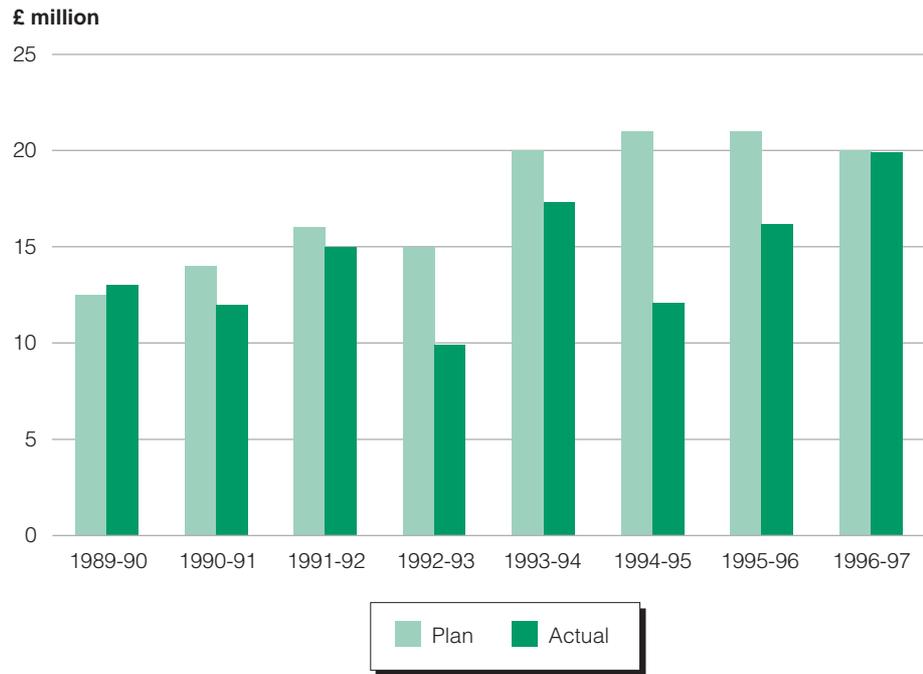
Remarketing of Moel Groes-Heol commenced in March 1994 with an asking price of £150,000. In May 1994 an acceptable offer of £178,000 was received and the sale completed that September.

2.6 The 1989 Ministerial statement indicated that, subject to market factors, disposal of the 100,000 hectares was expected to realise up to £150 million by the end of the century. In July 1990 the Commission indicated to Ministers that they estimated that proposals to protect public access would reduce expected disposal receipts over the sales programme by £10 million. Because the Commission have experienced difficulties in achieving their plans for the forest area sold, total disposal income also fell short of that planned (Figure 6).

2.7 The 66,000 hectares sold between 1989 and March 1997 have generated £75 million in income. The Commission estimate that the remaining areas they have selected for sale, plus planned sales of other property, will earn a further £45 million in the period 1997-98 to 1998-99. Expenditure plans for 1997-98 to 1999-2000 include an additional £40 million of disposal receipts from the Commission. The Commission's disposal programme has yet to be revised to accommodate the planned extra disposal receipts. Until 1995-96 disposal receipts were surrendered to the Consolidated Fund. Since then the Commission have retained receipts to fund their forestry operations with consequent reductions in the level of Exchequer funding.

Receipts from the sale of forest land and other properties

Figure 6



Source: Forestry Commission

The Commission do not distinguish between receipts from forest land disposals and those from the sale of other properties when setting annual sales plans.

Have the Commission revised their guidelines for selecting forests for sale to reflect changing priorities?

Generally yes. Although the Ministerial selection criteria were not in any order of precedence, the Commission have given greater emphasis to the rationalisation of their estate, market preference and maintaining public access. This emphasis is intended to reflect Ministerial statements on disposals and Government policy announcements since 1994 on maintaining public access. The preferred option for maintaining public access (Continued Public Access agreements) has not been as successful as expected. Government policy therefore presumed against the sale of individual forest areas where access was considered to be important unless future access could be guaranteed. We found scope to clarify the relative weightings given to the Commission's measures for determining the importance of public access. We also found that the question of public access in New Zealand had been addressed by selling licences which gave buyers a long term lease over the stock of growing timber.

2.8 The selection criteria set by Ministers in 1981 were not in any order of precedence. To assist their managers to select areas for disposal, the Commission developed the criteria into more detailed selection guidelines. The Commission's guidelines were first issued in 1989; revised to reflect the reorganisation of their Regional office structure in 1992; and revised again in 1994 to take account of the

increased emphasis Government policy gave to maintaining public access to forests (Appendix 3). Although the Ministerial guidelines listed nine criteria to consider when selecting areas for disposal, there were areas of overlap and the Commission have, in practice, identified three key criteria which have had most effect on informing disposal selection decisions: rationalisation of the forest estate; market preferences; and the use of forests for public access and recreation.

Rationalisation

2.9 Rationalisation of the forest estate is expected to contribute to improvements in the Commission's efficiency and commercial effectiveness. Ministers recognised that disposals prior to 1989 had made a significant contribution to improved efficiency and considered that rationalisation should be a key feature of the extended programme. Guidance issued by the Commission in 1989, 1992 and 1994 required Regional offices to base their disposal proposals on sales which would further rationalise the estate. The 1989 guidance described such sales as those which would consolidate the forest estate to maximise financial performance and achieve the desired composition and structure of the forest estate. In the 1992 guidance the prime areas for selection were those which met rationalisation criteria. The 1994 guidance defined rationalisation sales as those of land which was relatively costly to manage, such as small woodlands remote from the Commission's forest district offices.

2.10 The Commission consider that each forest area contributes to each of their forestry objectives. They have not ranked the forest estate according to the impact each area is likely to make to financial returns and other benefits. Thus there is no plan showing the composition and structure of the forest estate which would maximise efficiency gains available from disposals.

2.11 Rationalisation is one of a number of initiatives used by the Commission to improve efficiency. Changes to forest operations, such as re-organisation of Forest Districts, increased mechanisation, and improved management techniques, also contribute to reduced costs. The Commission monitor the success of the combination of initiatives through changes in a range of performance measures (such as annual surplus of income over expenditure, administrative expenses, and the unit cost of harvesting) which have improved over time (Appendix 4). But the impact of any single initiative on performance is not assessed because the Commission consider that, unless changes are made in a separate and sequential manner it is not possible to accurately attribute savings to each measure.

Market Preference

2.12 Ministers required the Commission to regard the transfer of woodlands to the private sector as a key factor in selecting areas for disposal. Under the 1994 selection guidelines, Regions were asked to review their estate in two stages – initially to identify rationalisation candidates and subsequently to identify areas which satisfied private sector market preference.

2.13 Prior to 1994 disposal had concentrated on smaller blocks of forest in accordance with the Commission's emphasis on rationalisation. The 1994 guidelines gave greater emphasis to market preference which would meet the demand from institutional investors and wood processors interested in buying larger blocks of forest as business investments. Since larger blocks of forest land are more readily available in Scotland and Wales, the 1994 guidance required Regions to identify for disposal blocks over 1,000 hectares in Scotland and over 500 hectares in Wales in order to satisfy market preference.

Maintaining Public Access

2.14 Maintaining public access to forest areas has attracted increased priority since 1989. When the 100,000 hectare target was set, Ministers were concerned that the general public should continue to enjoy access to those forests to be disposed of by the Commission in a way which was compatible with management for forestry and other purposes and were considering ways of achieving that objective. In November 1990, Ministers announced that they did not consider it would be appropriate to seek to protect public access by way of new legislation since this could not be framed in a sufficiently flexible way to cover the widely differing circumstances affecting woodlands throughout Great Britain. Similarly, the option of imposing access conditions on sale was also ruled out on the basis of legal advice that these would be of doubtful effect against subsequent owners. Ministers therefore decided that the Commission would offer local authorities the opportunity to enter into Continued Public Access agreements before individual woodlands were offered for sale on the market.

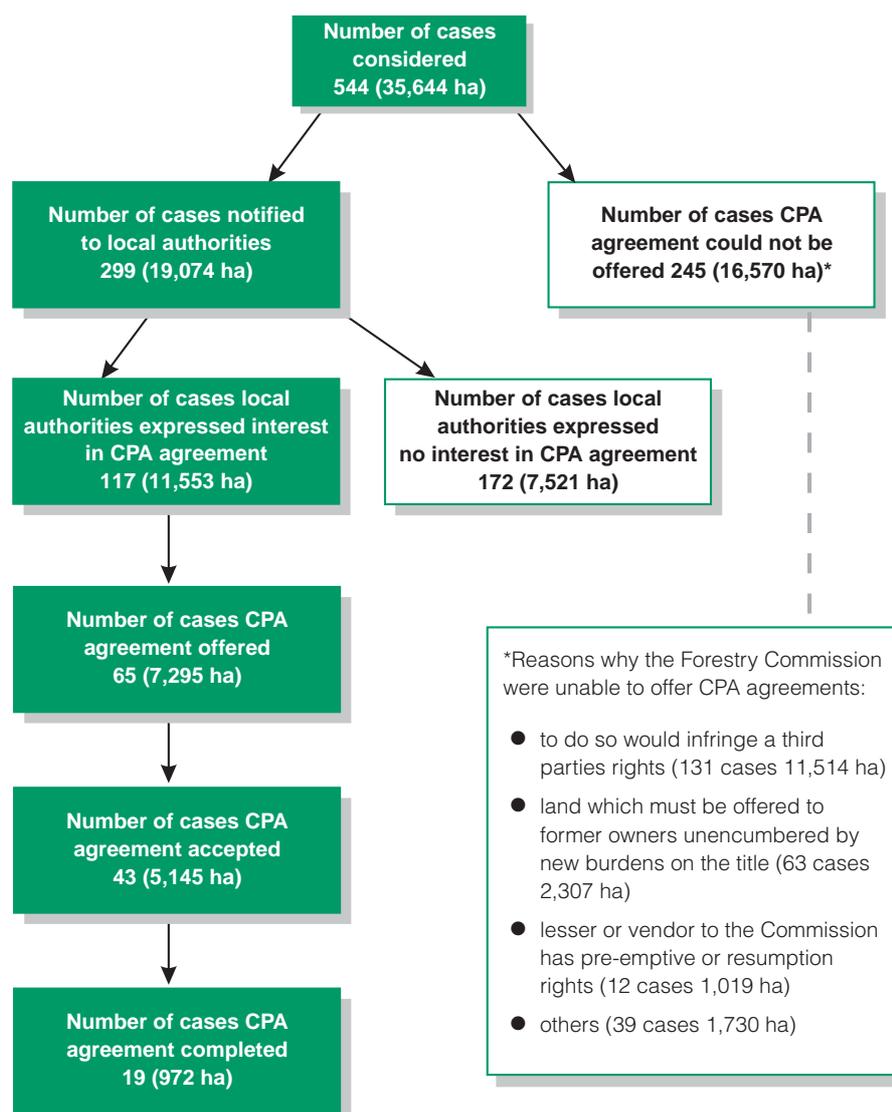
2.15 Under powers arising from the Wildlife and Countryside Act 1981 in England and Wales and the Countryside (Scotland) Act 1967, the Commission can enter into Continued Public Access agreements which enable the continuation of existing public access to woodlands for walking and informal, quiet enjoyment and ensure continued use of ancillary facilities, such as car parks, after a woodland has been sold. Under such agreements, purchasers of land manage the woodland but allow the public free access to the forest unless exceptional circumstances, such as

the interests of safety or conservation, prevail. The agreement is legally binding on the purchaser and any subsequent owners, ensuring access is protected in perpetuity. Local authorities are required to provide and maintain facilities such as footpaths associated with recreational use of the forest. The Commission have no involvement in the agreements after sale.

2.16 A multi-departmental review group was established in 1993 to review the operation of Continued Public Access agreements. They found that of the 544 forest areas considered for disposal, the Commission had been unable to offer agreements in 45 per cent of cases (Figure 7). Local authorities had entered

Uptake of Continued Public Access Agreements (October 1991 - January 1994)

Figure 7



Source: Report of the Group formed to review the Forestry Commission's Continued Public Access arrangements

agreements in 43 of the 299 cases offered to them. The most common reasons for local authorities not taking up agreements was a lack of public interest in the areas offered and a concern about the longer term expenditure commitments.

2.17 The review group concluded that the large area of woodland excluded from the arrangements and the relative lack of interest in Continued Public Access agreements expressed by local authorities had contributed to some loss in public access. However, they noted that loss of access had been minimised as a result of Ministerial instructions which obliged the Commission to avoid the sale of woodlands where access was assessed as significant. As a result of this review, the Government announced (*Our Forests: the Way Ahead* published in February 1994) that there would be a presumption against the sale of any woodland with high levels of public access unless a Continued Public Access agreement was in place or the purchaser could otherwise guarantee continued public access. The Commission's 1994 access guidelines introduced a standardised checklist to allow forest managers to assess the importance of public access to any forest area. A revised checklist was published in March 1996 (Appendix 5). During 1996-97 the Commission sold four woods where access was classified as important and completed 28 sales with Continued Public Access agreements out of a total of 168 sales.

2.18 The Commission recognise that the diverse needs of different sections of the public who require access make it difficult to provide definitive answers on the quality of public access. The checklist they use therefore reflects their view that rules for assessing the importance of access must be simple and objective. We engaged ERM environmental consultants to review the adequacy of the Commission's checklist as a measure of the importance of public access. The consultants concluded that the checklist identified most of the features relevant to an assessment to satisfy the Commission's published definitions of public access. They considered, however, that the checklist could do more to address the relative weight given to the various types of use made of the forest, the physical ease of access, and the specific attractions offered by each forest.

2.19 Sale of the freehold title to land meets the requirements of the 1989 Ministerial statement which directed the Commission to sell 100,000 hectares of forest land, ensures that the Commission obtain the full value of the property and relinquishes the Commission from any future management input to the area. But freehold sales lead to difficulties in imposing conditions as to use, when that land is important to public access.

2.20 We found that the New Zealand Forestry Corporation had addressed the question of public access by issuing licences as an alternative to freehold sale. Licences are paid for by an annual fee based on the market rate for renting the land and provide the buyer with a renewable long-term lease over the stock of growing timber. Public access to property on the same terms as those offered by New Zealand's state forest company are a condition of the licence. The advantages of licensing include the successful transfer to the private sector of the management of those forests which have been identified as best meeting rationalisation criteria, the potential realisation of public sector investments values and continued public access. Disadvantages compared with freehold sale are likely to include relatively lower sales values and a continuing public sector commitment to monitor the licence conditions.

2.21 The Commission have considered leasing as a means of maintaining public access. They obtained legal advice in April 1989 which suggested that the Commission could grant leases with enforceable conditions requiring the lessee to allow public access. The Commission decided, however, that no alternatives to freehold sale of forests would satisfy the terms of the disposal directives: they told us that they needed to sell the freehold in order to comply with Ministerial directions. They also considered that the costs associated with retaining management responsibility for leased land, undertaking complex conveyancing of leases and enforcing lease conditions, would not lead to the efficiency benefits expected from rationalisation being achieved. In 1996 the Commission obtained further legal advice on proposals to use leasing as a means of transferring the management of a significant proportion of the Commission's estate to the private sector. This suggested that in the context of such wholesale leasing the Commission were constrained by the terms of the Forestry Act from transferring their management responsibilities.

Did the changes in priorities have a significant effect on the disposal programme?

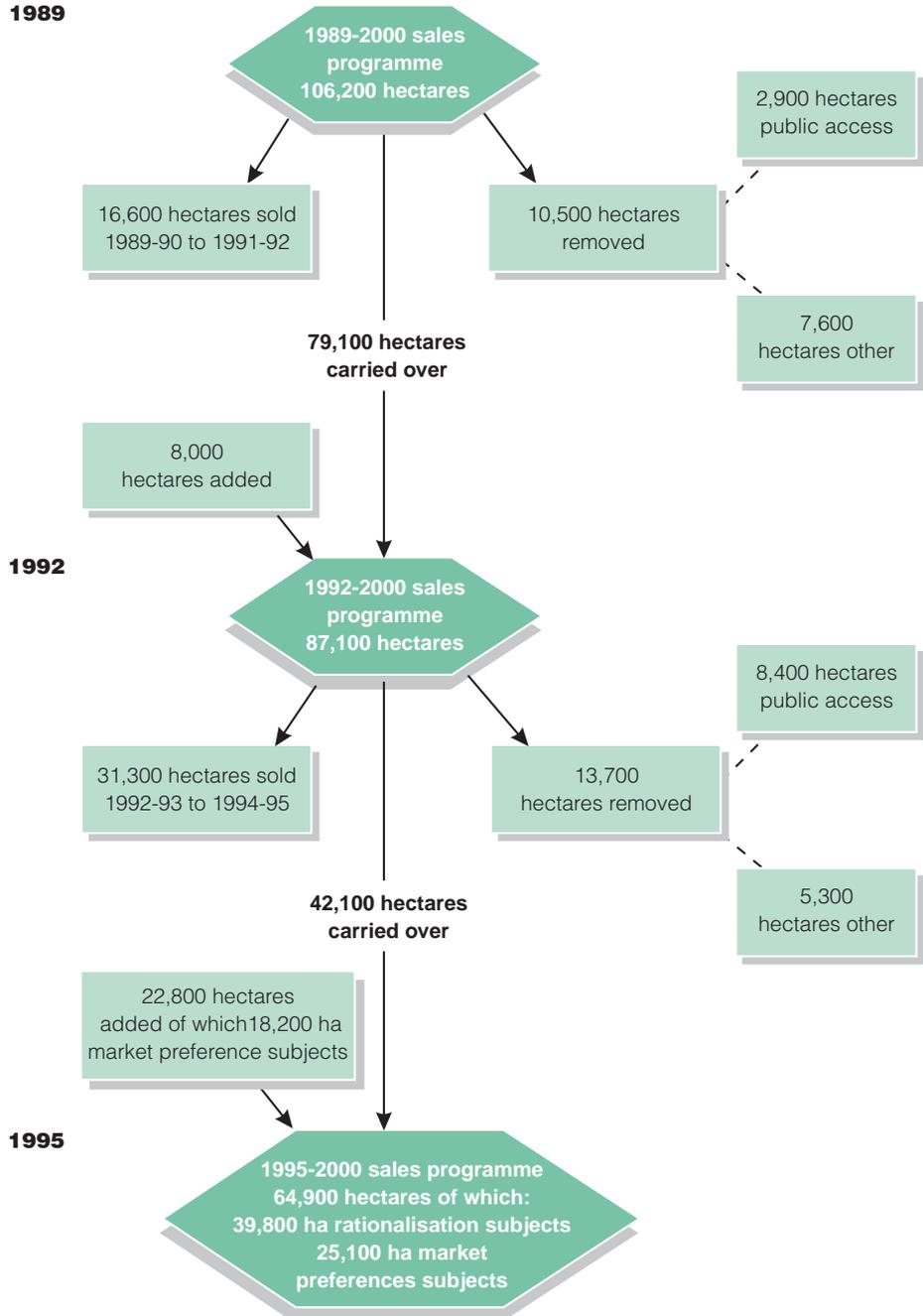
Yes. Between 1989 and 1994 some 24,000 hectares of forest land were removed from programmes and another 31,000 hectares were added. The main reasons for change were Ministerial directions which led to removals because of public access and additions to meet market preferences. Overall some 5,000 hectares were transferred from targets for English Regions to those in Scotland.

2.22 Our review of disposal programmes produced in response to the Commission's selection guidelines found that between 1989 and 1994, forests with a combined area totalling some 24,000 hectares had been removed from the programme to be replaced by other forests with a total area of some 31,000 hectares (Figure 8).

Changes to the Forestry Commission's disposal programmes 1989-95

Figure 8

1989



Source: National Audit Office

2.23 Programmes were adjusted to reflect changing Ministerial priorities for public access and market preference and had greatest effect in the Commission's Scottish Regions. Most of the forest areas removed from disposal programmes were due to public access issues and the majority of those added were identified as satisfying market preference criteria. Forests in England and Wales are more

frequently located near large centres of population and many of these areas had not been considered for disposal because of the importance of public access. This, together with the Commission's revised definition of market preference which focused on larger blocks of forest, has meant that disposal programmes in the Scottish Regions have changed most. The combined effect was to transfer some 5,000 hectares of the Commission's disposal target from English to Scottish regions.

Did the Commission establish sound strategies for selecting forests for disposal?

Not completely. Comprehensive forward strategies should provide clear objectives on which professional judgements can be based. The Commission's guidelines provided broad definitions of the Ministerial selection criteria to assist selection decision making. They did not, however, establish quantitative benchmarks nor objectives against which disposal decisions could be judged. Forest managers selected areas for disposal to meet local circumstances, but more could have been done to ensure that potential benefits of disposal across the whole estate and throughout Great Britain were maximised.

2.24 A comprehensive forward strategy, supported by reliable information, is important to the success of a disposals programme and provides a framework on which professional judgements can be based. We examined whether the guidance issued by the Commission in 1994 provided a sound strategic base upon which to select areas for disposal which met prevailing selection criteria and priorities.

2.25 The Commission's 1994 guidance continued their earlier policy to spread disposals throughout their five Regions. However they recognised that, because of the increased Ministerial priority afforded to maintaining public access, the majority of sales were expected to come from Scotland and Wales. The guidance also provided a broad definition of those factors associated with achieving key criteria when selecting land for disposal including:

- rationalisation was important in areas of forest which attracted relatively high management costs;
- areas assessed to be important to public access were to be retained unless access could be guaranteed; and
- market preference was important for larger blocks of forest in Scotland and Wales.

2.26 Forest managers were responsible for applying the guidelines to identify land for disposal. Using their local knowledge and a checklist developed as part of the 1994 guidance, managers selected those areas which they judged best met the disposal guidance within the Region's own disposal strategy. Because of the variation in the types and relative size of forest managed by each of the Regions, the guidance did not set benchmarks for measuring how criteria were to be satisfied (such as the cost per hectare which would qualify as high cost) or any specific objective to be achieved from disposal (such as reduction in Regional management costs).

2.27 We therefore examined how the guidance had been applied. We developed a scoring system which weighted important features of individual forest areas according to the significance attached to them by the guidance (Box 1 and Appendix 6). We applied the scoring system to forest areas in individual Forest Districts in three separate Regions: Ae District in South Scotland; Llandovery District in Wales; and Somerset and South Devon District in South and West England.

**The National Audit
Office's scoring system
for forest land disposals**

Box 1

The purpose of the scoring system was to establish whether forest managers had selected the most appropriate areas of forest land for disposal as defined by the Commission's selection guidelines.

We applied the scoring system to all areas selected for disposal by the Commission in 1995 in three Forest Districts plus a similar sized sample of forests which they had decided to retain. This latter sample was selected from smaller and more remote forests within each Forest District which appeared to best fit the Commission's definition of rationalisation.

The scoring system awarded a series of points depending on how each forest area fitted the Commission's definition of the Ministerial selection criteria. For example, a small forest block remote from its local management office scored ten points because this fitted the Commission's definition of the rationalisation selection criteria; blocks requiring expensive roads to be built within the forest to assist in timber extraction within the next ten years scored up to four points because this fitted the Commission's definition of the financial implications selection criteria.

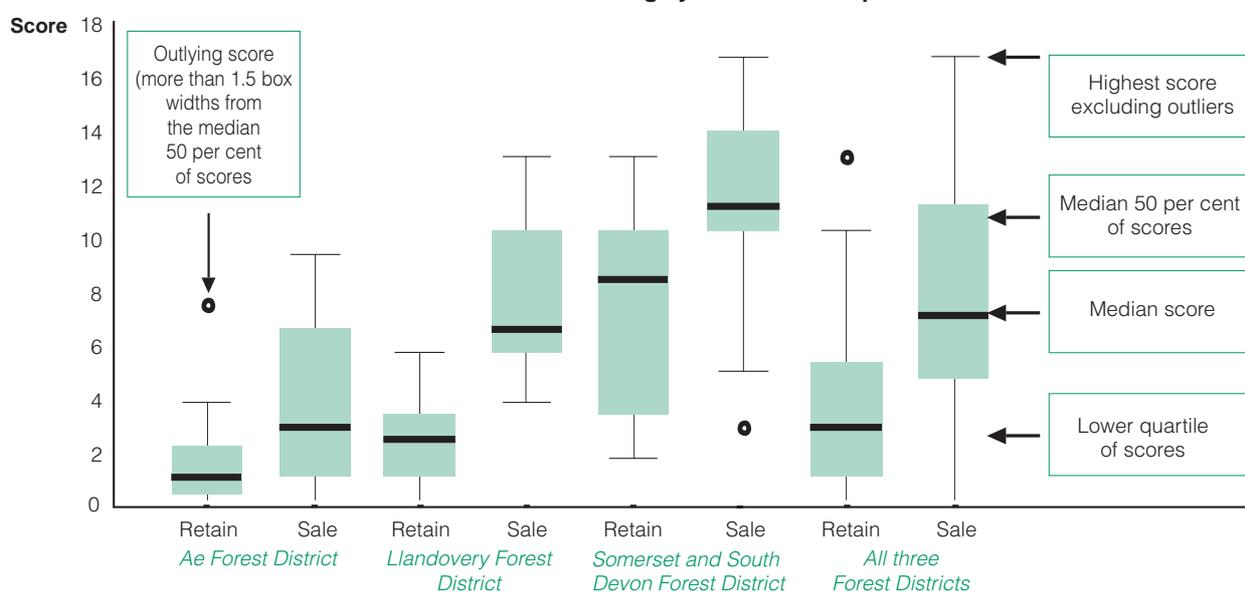
For some selection criteria the score was either zero or one and was applied as a multiplying factor to the sum of the other scores. For example, a forest area where public access was assessed as important and a Continued Public Access agreement could not be entered into, scored zero under the public access selection criteria. When applied as a multiplying factor this resulted in an overall score for the block of zero.

The higher the score the more compelling the case for disposal. Thus, a block scoring zero because of important public access would be retained in line with Government policy on protecting continued public access. The maximum score per block was 46.

Overall, we applied the scoring system to 50 blocks intended for disposal (5,864 hectares) and 43 blocks to be retained (6,418 hectares).

Full details of the scoring system are at Appendix 6.

2.28 The results showed that areas selected for sale were generally those gaining the highest scores within the Forest District (Figure 9). This indicated that forest managers were consistently identifying areas which best met the selection criteria in their local area. We also found that areas retained, but which were not fully consistent with the scores derived from the scoring system, were generally not selected for disposal for reasons falling outside the Commission's selection guidelines such as those forests used to produce nursery seed.

Figure 9**Results of National Audit Office scoring system for a sample of forests**

This figure shows the range of scores achieved in areas selected for disposal and a sample of forests to be retained in the three Forest Districts examined by the National Audit Office. The higher the score the more compelling the case for disposal. In each Forest District the highest scores and the median 50 per cent of scores for retained areas is less than that for areas selected for disposal. This indicates that the most appropriate forests have been selected for disposal within each Forest District.

Source: National Audit Office

2.29 Areas chosen for disposal were generally consistent with Regional disposal strategies although Regions experienced some difficulty achieving strategy objectives in full. Strategies generally identified broad geographical areas within Regions from which the Commission wished to withdraw to reduce management costs. However, because of the priority attached to issues such as public access, the Regions could not always sell some of the areas identified for rationalisation. For example, the prime objective of the South Scotland Region was to withdraw from forests in Central Scotland and East Lothian to concentrate forest management on the Commission's large conifer blocks in Dumfries and Galloway. Whilst the disposal of woodlands in East Lothian was largely achieved, leading to the closure

of the local Forest District office in 1997, the withdrawal from Central Scotland was not wholly possible due to the significance of public access to woodlands in Fife and near Glasgow (Case Study C).

2.30 The results of our scoring system showed a wide range of scores across the Forest Districts. Forests in the Somerset and South Devon District generally attracted the highest scores while those in Ae District were consistently lower. This demonstrates how the Commission's policy of spreading the disposal programme throughout the Regions led to selection criteria being applied to meet local circumstances. Had the Commission applied the scoring system to all potential disposal candidates, they could have identified an initial list of forest areas which best satisfied the selection criteria. The list could then have been refined to produce a programme covering all Regions which contributed most to potential efficiency savings.

2.31 The Commission recognise the case for more objective measurement to assist the selection process. They are therefore considering the introduction of a scoring system to be applied at a Forest District level. The system will build on the one we devised by enhancing flexibility to reflect different local circumstances (such as the impact of good road links on the cost of managing remote forests) and the cumulative benefits to be gained from grouping blocks of forest (such as cost savings available when local offices are amalgamated).

**Did the Commission
assess the costs and
benefits of their disposal
decisions?**

Not completely. Forest managers recorded the reasons for disposal decisions but did not quantify the effect. This reflects the Commission's view that since the minimum price they would normally accept for a sale takes account of the investment value of the growing timber, the long term return from the forest estate is unaffected by disposals. Assumptions on future income and cost can be used to predict significantly different impacts on the Commission's efficiency measures depending on which forests are selected for sale, even though in practice these improvements may not always be attainable. The costs and benefits associated with some selection criteria, such as that for maintaining public access, cannot be accurately quantified.

2.32 Forest managers routinely recorded the factors contributing to disposal decisions. Selection guidelines require managers to complete a checklist showing which of the criteria set out in the guidelines influenced decisions to offer areas of forest for sale. The checklists are used to finalise the Regional disposal programme.

Case Study C: South Scotland Disposal Strategy

In April 1989 South Scotland Region was organised into seven Forest Districts responsible for the management of 194,000 hectares of forest land. Nearly two thirds of the total holding was in Galloway, west of Dumfries and in southern Ayrshire. These are mainly large, productive conifer plantations due to enter full production in the early years of the 21st century.



The Region was expected to contribute 15,000 hectares in forest sales towards the Commission's overall target to dispose of 100,000 hectares

between 1989 and the end of the century. The Region's disposal strategy was to concentrate their remaining land holding on these productive blocks. 11,000 hectares, including several large blocks each over 750 hectares in size, were expected to be sold in upper Nithsdale and the Tweedsmuir valley to allow efficiency savings from the amalgamation of two Forest Districts. Other efficiency gains were expected to be achieved from the disposal of small, isolated woodlands throughout the Region but particularly in the east of Scotland including East Lothian.

In 1992 Forest Enterprise was reorganised. The Region gained 74,000 hectares of forest land from the former Mid Scotland Region together with responsibility for the disposal of 19,800 hectares of forest land in addition to the 3,200 hectares sold since 1989. The Region's revised strategy was to continue in the main with its earlier disposal programme and also to divest its land holdings in the peripheral areas inherited from Mid Scotland such as the Cowal peninsula and east Fife.

The increase in importance afforded to public access caused the disposal strategy to be reviewed in 1994. As a consequence 2,400 hectares of woodland previously identified for sale in Fife and 1,750 hectares to the north of Glasgow were removed from the disposal programme due to the significance of public access. 12,300 hectares of new areas were added to the programme (of which over 90 per cent of the area is intended to satisfy market preferences) to take account of revised targets set by Forestry Commissioners. The most significant of these blocks is 6,000 hectares in size situated in central Ayrshire. This area was selected on grounds of low public access, high roading costs and its disposal offered scope for further Forest District amalgamations, although it has not yet been marketed.

The total disposal programme for South Scotland 1995-2000 is now 21,500 hectares of which 16,400 hectares is intended to satisfy market preferences. This is expected to reduce the total area of forest managed by the Region to 240,000 hectares. The Region is currently organised into six Forest Districts from a previous highpoint of eight following Forest Enterprise's reorganisation in 1992.

2.33 We examined the reason for disposals in 174 sales cases completed since 1989. We found that forest managers regularly (86 per cent of the cases examined) identified rationalisation factors such as remote locations, difficult access and inherent high management costs to be the main reasons for sale.

2.34 We also examined the potential costs and benefits of disposal on three aspects of forest management: the long-term return on the investment in the forest; cost reductions required by selection guidance; operating surplus; and the impact of disposal on non-financial benefits.

Long-term Return

2.35 The Commission manage their forests using yield models for different categories of trees. The models enable the Commission to produce harvesting plans showing when specific areas of forest should be felled to gain the best financial return after taking account of the Commission's other non-financial objectives.

2.36 The models also provide a base for assessing the long-term value of the forest investment. Yield model tables can be used to estimate the volume of timber which any area of forest will produce when the trees are cut down. The volume of timber, taken with assumptions of the long term price for timber, provides an estimated value of the income the Commission will obtain from the forest. By deducting the costs to be incurred on the forest up to the date of harvesting from the estimated income, the Commission can produce a net value for the forest. Discounting the cost and income streams to a current date produces a net present value for individual forests.

2.37 The Commission do not quantify the overall financial impact of disposal decisions on the long term return expected from the forest estate. They consider that because they do not normally accept a sale price less than the net present value derived from growing and harvesting the timber themselves, disposal of any individual woodland will not adversely affect the long term return they achieve from forestry investment.

Cost Reductions required by the Commission's Selection Guidance

2.38 Because disposals are expected to have a neutral impact on the long term return from the forest estate, the Commission's selection guidelines directed managers to identify disposal candidates which satisfy Ministerial selection

criteria (paragraph 2.8). Regions were expected to select areas for disposal with particular reference to those woods making the lowest contribution to the Commission's objectives and maintaining public access. The guidance defined woods which made the lowest contribution to the Commission's objectives as those which: were costly to manage or operate; had inherent management problems; were held on leasehold with title constraints limiting public access; would help improve the age balance of the retained estate; or required significant net expenditure over the next ten years. The Commission did not set targets for the extent of cost reduction which they expected to arise from disposals.

2.39 We found that the Commission's disposal programme did not include all those forest areas which best met rationalisation criteria. In some areas the programme was influenced by other selection criteria, such as maintaining public access and the impact of market preference (paragraph 2.23). Also our scoring system found that, although rationalisation criteria were generally being satisfied at a local level, the best candidates from the estate as a whole were not always in the programme (paragraph 2.30).

2.40 Because the Commission manage their forests according to a yield modelling system, they therefore maintain their cost records at a forest district level rather than at individual forest level. The exact cost of managing each area of forest is therefore not readily available and, although it is possible to assess the extent to which some costs (eg harvesting) may vary from the Forest District average, other significant costs (such as management overheads) cannot be attributed accurately to individual areas of forest.

Management costs

2.41 The Commission spend £4.3 million each year on management overhead costs related to maintaining the forest estate. Our analysis of management costs based on three Forest Districts, suggested that the Commission could achieve additional savings if they concentrated sales in the Forest District recording the highest average costs rather than those actually selected for disposal. We found that for the sample of 5,864 hectares of forest land we examined with our scoring system (Box 1) the theoretical savings in management costs amounted to £14,000 per annum. However, had the disposals been drawn exclusively from the Forest District with highest management costs, Somerset and South Devon District, theoretical savings would have been £42,000 per annum. The difference (£28,000) represents some 14 per cent of the management costs of the three districts we examined.

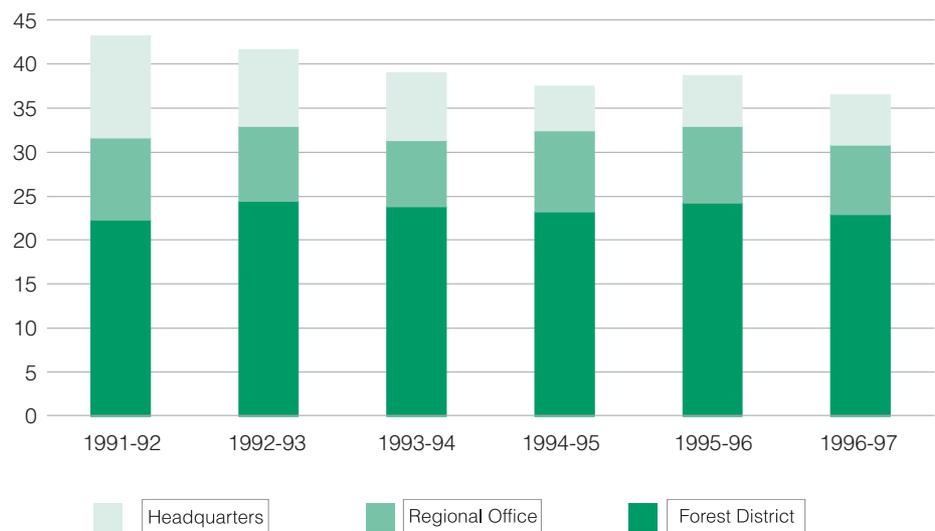
2.42 In practice, however, improvements in management costs will not always be fully attainable. Disposal of forest land with above average direct costs because, for example, of difficult terrain, will inevitably lead to lower average unit costs in the unsold estate. Benefit might also lie in selling lower cost forest areas which contributed to savings in indirect costs such as management overheads, which are spread across a whole forest district.

2.43 Reductions in management overheads and administrative costs may only be achievable through restructuring, such as the closure of a local office. The Commission consider that their selection of forest land for sale has concentrated on the achievement of such step savings. On this premise they have reduced the number of Forest Districts from 59 in April 1989 to 38 in March 1997. Our analysis of management and administration expenses indicated that annual expenditure has fallen from £43.2 million in 1991-92 (at 1996-97 prices) to £36.5 million in 1996-97. Most of the savings following the 50,000 hectare reduction in the area of forest land managed had actually accrued from reduction in expenditure attributed to the Commission’s headquarters function rather than lower Forest District administration costs (Figure 10).

**Forest Enterprise
management overheads
and administration
expenses**

Figure 10

£ million



Since 1991-92 the Commission have made most savings in management and administrative expenses in their Headquarters functions. Savings at the Forest District office level have been offset by the delegation of some functions from Headquarters and Regional offices coupled with extra supervisory effort arising from an increased harvesting programme.

Source: Forestry Commission

Note: all figures are at 1996-97 prices.

Surpluses

2.44 The Commission told us that increased delegation of functions and changes to the way in which the costs of central services were borne had increased the proportion of administration expenses attributed to Forest Districts. Timber production, which is managed by Forest District offices, had also increased by some 20 per cent over the period. The unit cost for forest maintenance and protection has reduced by 24 per cent from £7.18 per hectare in 1991-92 to £5.45 per hectare in 1996-97 (at 1996-97 prices).

2.45 The Forest Enterprise Framework Document sets out a series of performance measures against which the Agency's performance should be judged. One of the key financial measures of performance is their annual operating surplus. We therefore commissioned Jaakko Poyry, a leading firm of forestry consultants, to assess the financial impact of disposals on the Commission's cash surpluses. We took a sample of forest areas from each of Ae, Llandoverly and Somerset and South Devon Forest Districts comprising those which had been selected for disposal either on the grounds of rationalisation or market preference and those which were to be retained.

2.46 We ranked the results of our analysis in accordance with the extent each forest area would contribute to Commission surpluses up to 2004 and 2014. This reflects the Commission's guidance on concentrating cash savings on the short to medium term. We found that some forest areas which the Commission intended to retain were contributing relatively less to surpluses than other areas which the Commission had identified for sale. Within our sample, selling the 2,176 hectares which contributed least to the Commission's surpluses rather than the equivalent area which the Commission had identified for disposal, would generate additional surpluses of £0.5 million in the period to 2004 and £1.1 million to 2014. However, other selection criteria were less likely to be satisfied by the sale of these alternative areas (Figure 11).

2.47 The impact of cost reductions on key performance measures was one of a number of factors considered when the disposal programmes were compiled. Other factors, such as maintaining public access, income generation and market preference were also important. The final sales programme therefore necessarily contained some forest areas which would contribute little to improvements in key measures of performance such as annual operating surplus. The Commission did not quantify the impact of disposals on their future performance results.

Figure 11

Forest District and Wood		Commission disposal decision	Reason for sale/retention	Ha	Cumulative ha	Surplus 1994-95 to 2003-2004		Surplus 1994-95 to 2013-2014	
						£000	£/ha	£000	£/ha
Ae	Cairnhead	Sale	To meet market preferences	1,347	1,347	(108)	(80)	343	255
Ae	Little Clyde	Sale	To meet market preferences	672	2,019	(54)	(80)	831	1,236
Somerset & South Devon	Chargot	Sale	Advantageous land exchange	18	2,037	8	443	28	1,534
Somerset & South Devon	Whitty Hill	Retain	Close to other blocks. Entering production	9	2,046	6	688	15	1,664
Somerset & South Devon	Browndown East	Retain	Easy working. Thinning underway	43	2,089	33	766	196	4,549
Somerset & South Devon	Tilsey Cpt 7039	Retain	Thinning income available now	21	2,110	18	863	132	6,263
Ae	Criffel	Retain	In current production programme	210		447	2,126	672	3,200
Llandoverly	Nant y Gronw	Retain	In current production programme	120		301	2,133	756	6,303
Somerset & South Devon	Elworthy Cpt 7040	Sale	Small. Remote from local office	31		69	2,211	258	8,328
Llandoverly	Dolaucothi/Blaenrhilog	Retain	In current production programme	291		657	2,258	1,841	6,325
Llandoverly	Garreg Llwyd	Retain	In current production programme	66		176	2,669	184	2,782
Llandoverly	Pencwm Fawr	Sale	Small. Remote from local office	9		26	2,850	85	9,452
Llandoverly	Martlewy Wood	Sale	Small. Remote from local office	18		60	3,328	182	11,068
Ae	Lochbank	Sale	Small. Low public use	24		91	3,798	132	5,505
Ae	Dalmacallan	Retain	In current production programme	697		3,365	4,827	3,294	4,726
Llandoverly	Allt Cefn Llan & Cefn y Gefail	Sale	Poor access. Difficult terrain	50		243	4,861	585	11,700
Somerset & South Devon	Dunnabridge	Sale	Poor access. Likely to revert to moorland	7		49	7,021	49	6,939
Ae	Brownmoor	Retain	In current production programme	113		1,247	11,037	1,377	12,189

- Notes:
1. In order to maximise the Commission's financial operating surplus, those forests which make the least contribution per hectare to the surplus should be selected for disposal.
 2. With the assistance of Jaakko Poyry, we analysed the expected surpluses of nine forest areas selected by the Commission for disposal and nine areas to be retained. The total area examined amounted to 2,176 hectares of forest land to be disposed and 1,570 hectares to be retained.
 3. We ranked all 18 forest areas in order of their estimated contribution to the Commission's operating surplus from 1994-95 to 2003-2004 and from 1994-95 to 2013-2014. The surplus of the forest areas identified for sale by the Commission amounted to £384,000 (£176 per hectare) in the period 1994-95 to 2003-2004 and £2,493,000 (£1,146 per hectare) in the period 1994-95 to 2013-2014. The surplus of the equivalent area of land which made the least contribution to the Commission's operating surplus totaled -£97,000 for 2,110 hectares at an average of -£46 per hectare in the period 1994-95 to 2003-2004 and £1,889,000 for 2,112 hectares at an average of £663 per hectare in the period 1994-95 to 2013-2014.
 4. The additional surplus which could have been achieved by selling those areas which made the least contribution to the Commission's surpluses is calculated by multiplying the 2,176 hectares selected for sale by the differences in surplus per hectare between the areas selected for sale and those which make least contribution to the operating surplus.
 5. On this basis, the additional surplus which could have been achieved amounts to £480,000 in the period 1994-95 to 2003-2004 and £1,050,000 in the period 1994-95 to 2013-2014.

Non Financial Benefits

2.48 Costs and benefits of other selection criteria, such as public access and market preference can be difficult to quantify. Quantified measures of the benefit obtained by forest visitors have yet to be fully developed. Similarly the advantages of satisfying market demand to stimulate private forest sector investment have not been quantified.

2.49 The Commission have taken a lead in devising methodologies to quantify the economic value of public benefit arising from access to the forests. They have commissioned academics to consider options for assessing the economic value arising from the use of forests for recreation . The academics presented a number of options including a favoured approach based on the average amount visitors would be willing to pay (in addition to their current travel costs etc) to visit specific areas of woodland. They calculated that for a selection of different woodlands the benefit varied between £1.50 and £3.00 per visitor.

2.50 The Commission are considering how to refine the academics' work to provide robust indicators of public access benefits. They recognise that forest owners internationally face the same problem. The Commission have organised seminars to bring together different ideas for this important area.

Part 3: Managing the Disposals

3.1 This part of our report considers how well the Commission conducted disposals of individual forest areas.

3.2 We analysed a sample of 174 out of a total of 1,444 individual sales concluded by the Commission between April 1989 and January 1997. The sales analysed realised £29 million, representing some 41 per cent of forest land disposal receipts in the period. Our sample was structured to provide a random selection of sales in each of the Commission's five Regions, covering all sizes of forest sold but concentrating on larger sized sales (Appendix 7). Cases were examined using a standard checklist and based on best practice for asset disposals recommended by the Public Accounts Committee (Appendix 8).

Did the Commission give proper attention to pre-sale preparations ?

In most cases, yes. Pre-sale preparation was generally handled well with 78 per cent of the cases examined being completed within nine months of the acceptance of the offer. Four per cent of our sample (valued at £670,000) exhibited delays after accepting offers which could have been avoided through better pre-sale preparation.

3.3 Some 25 per cent of the Commission's estate in England and Wales comprises leased properties and some 14 per cent of that in Scotland is held under feu. Many of the lease and feu conditions impose constraints on the management of the land. The Commission's estate also contains forests located in areas where there is no direct access from a public road.

3.4 Thorough pre-sale preparation should ensure that sales are not delayed once a bid has been accepted. The Commission normally only proceed with the sale of a forest area when they are satisfied that all legal constraints and questions of access have been identified and other essential legal considerations (such as negotiations with local authorities over Continued Public Access agreements) have been concluded. However, in some cases the Commission will take a decision to proceed with cases where there are known legal problems because they would be onerous to correct and the purchaser may be content to accept the situation as it stands (case study D). In other cases, the Commission may simply be unaware that legal problems exist (case study E). We found that 78 per cent of cases examined (84 per cent by value) were completed within nine months of the acceptance of the offer (Figure 12 on page 38). But in seven cases (with a sales value of £670,000) sales were delayed for periods averaging 124 weeks after an offer had been accepted because of difficulties with the Commission's legal title.

Case Study D: Newbiggin and Blanchland Woods

The Commission consider that many of the woods they have sold contain minor boundary variations. They normally do not legally rectify these variations because they can be time consuming, and usually the purchaser is content to accept the property as it stands.

In this case however, an acceptable offer was received in February 1988 but completion was delayed over two years (until May 1990) because the purchaser insisted that the boundary fences erected by the Commission should exactly match the legal boundaries of the plantation.



Case Study E: Trevane Wood, Dyfed

The Commission leased this 24.3 acre woodland under a lease dated 1952. Unbeknown to them, in 1979 the lessor sold a narrow 'finger' of scrub woodland amounting to 1.4 acres (six per cent of total area) to a third party. The previous sale of this land the did not appear in the preliminary legal search conducted by the Commission prior to marketing.

The Commission accepted an offer to purchase in January 1993 but the sale did not complete until August 1995 because of the problem with the Commission's title. A £500 price reduction (3 per cent of the total sales price) was accepted to exclude the area of land sold to the third party.



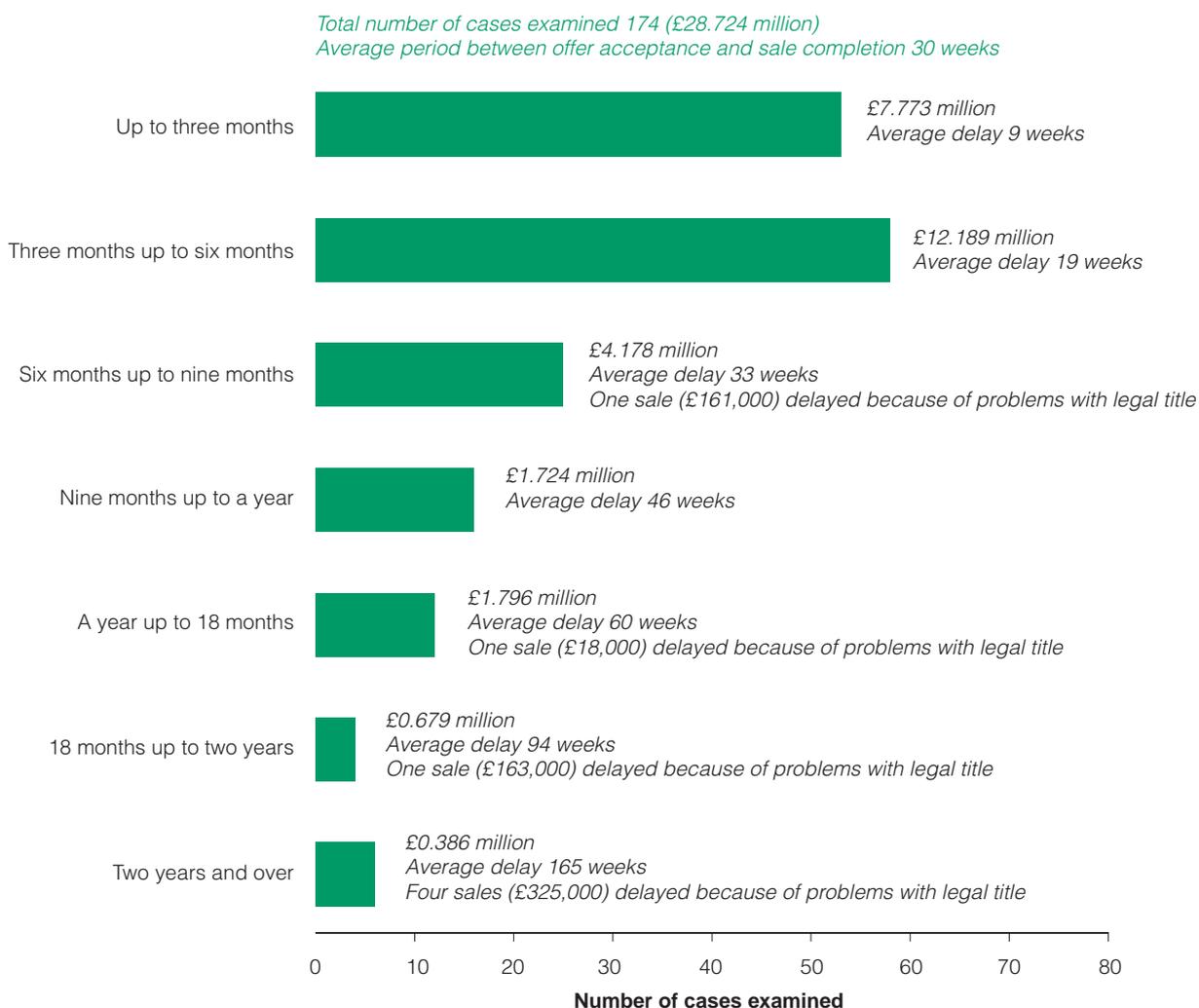
Did the Commission obtain up-to-date valuations to benchmark the sales?

Generally yes. The Commission prepared clear guidance for its staff to ensure best offers were compared with prevailing market prices and that larger sales also took into account the investment value of the forest as a crop of growing timber. Most of the cases we examined complied with the guidance but in 31 instances, sales were agreed more than two years after the initial valuation and in 10 cases the Commission reduced their own estimate of the investment value significantly.

3.5 The Commission's guidance for the sale of forest land requires a reserve price to be set for each sale below which an offer will not normally be accepted. Reserve prices for woodland areas smaller than 50 hectares are set at the assessed open market value and for larger forests, at the higher of the market value or 90 per cent of an estimated investment value. The Commission set market values taking account of their experience of the local market and they calculate the estimated investment values using techniques widely used in the forest industry to

Figure 12

Period between offer acceptance and sale completion in sales cases examined by the National Audit Office



78 per cent of cases examined (84 per cent by value) were completed within nine months of the acceptance of the offer. But in seven cases (with a sales value of £670,000) sales were delayed for periods averaging 124 weeks after an offer had been accepted because of difficulties with the Commission's legal title.

assess the expected value of growing timber (paragraph 2.36). The reserve price informs the asking price set for the disposal, provides a benchmark for assessing offers, and provides some assurance on the price obtained. The Commission have made widespread use of private sector agents, experienced in the sale of forest plantations, to assist in their assessment of reserve prices (paragraph 3.9). Whilst Commission staff ultimately set the reserve price, they will take into account their sales agents' views of market value.

3.6 We found that 97 per cent of the cases in our sample (99 per cent by value) complied with the guidance on setting reserve prices. However, in 31 cases, with a sales value of £3.4 million, decisions to accept offers were taken over two years after the reserve price had been set. The Commission told us that, for most of these cases, the delay arose because the area for sale did not attract sufficient interest at the Commission's asking price. In these circumstances it was unlikely that any independent market assessment would have increased their value in the intervening period. In a further three cases the Commission had withdrawn woodlands from sale to allow them to undertake valuable forestry operations (such as thinning out plantations or improving the presentation of the woodland). In each of these cases they re-assessed the reserve price.

3.7 The Commission had used investment values to assess the reserve price in 86 of the cases we examined. In 10 of these cases (with sales values exceeding £5.5 million) the Commission had reduced their initial estimate of reserve price in consultation with their agents (by a total of £1.8 million) (Case studies F and G). Estimates were revised either because the Commission had reviewed the cost and timings of future forestry operations (five cases), because they had changed assumptions about the quality of the timber stock (two cases) or because the Treasury approved a different discount rate to bring it more in line with the private sector (three cases).

Case Study F: Glenmard Wood, Ayrshire

Marketing of this 56 hectare wood commenced in the spring of 1995 with a reserve price of £167,000 based on the Commission's expected investment value. The Commission's sales agents considered the open market value of the woods to be only £148,000 suggesting that the Commission's estimates of timber prices were too high.



Following a closing date for offers in June 1995 which received no bids and a re-inspection of the woods which revealed several stands of larch being under-thinned, the Commission revised their reserve price to £156,000 in September 1995 and again to £152,000 in November 1995. Two offers were received in March 1996 both of which failed to meet the revised reserve price. The Regional Director decided to accept the highest offer of £135,510 in light of previous failures to attract an offer near the reserve price and the sales agent's advice on market value. The sale was completed in December 1996.

Case Study G: Ardnamurchan Woodlands, Inverness-shire

The reserve price based on investment value for this large (1,500 hectare), remote block was set by the Commission as £457,000 in September 1992. North Scotland Region reported to the Commission's Headquarters in September 1993 that a single offer of £257,500 had been received whilst noting that their own estimate of the open market value of the wood and that of their sales agents was £370,000 and £300,000 respectively.



The Commission's Chief Land Agent considered that the reserve price did not adequately reflect the additional harvesting costs, haulage and extraction costs resulting from the extreme remoteness and difficulty of harvesting and extracting the block. When these factors were taken into account he considered the offer was acceptable. The difference between the original reserve price and the offer received was estimated to represent a penalty cost of approximately £4 per cubic metre of timber harvested. The sale for £257,500 was completed in March 1994.

Did the commission adopt appropriate methods of sale to maximise sale proceeds?

Generally yes. 82 per cent by value of the cases we examined were sold on the open market. The Commission appointed agents to market disposal cases and 81 per cent of cases achieved or bettered the Commission's reserve price. Sales below reserve, totalling £4 million, were justified by their circumstances.

3.8 The Commission's guidance complies with PAC recommendations (Appendix 8) by requiring disposals to be exposed to the open market unless there are compelling reasons to the contrary. Exceptions to competitive tender should be subject to strict controls. Sales by negotiation are permitted in certain circumstances, such as sponsored sales to protect areas of conservation or amenity interest and where the Commission are required to offer land back to former owners. Negotiated sales are concluded after independent valuation.

3.9 The Commission's sales guidance requires that under normal circumstances sales agents experienced in forestry sales should be used in the disposal of woodland on the open market. Sales agents, in consultation with Commission staff, have been used to advise on the packaging and marketing of individual woodlands, for designing and distributing sales particulars and for advertising in appropriate publications. They have also provided advice on the setting of reserve prices, received bids and negotiated with potential purchasers.

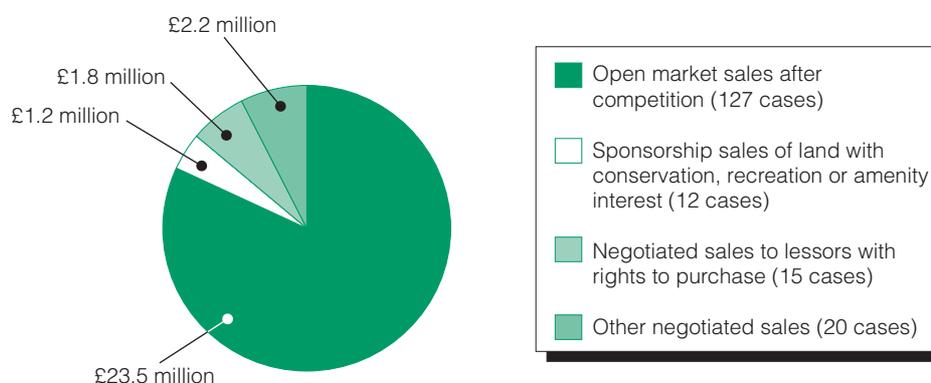
3.10 In our view the quality of marketing brochures and choice of publications was well judged in the 132 cases we examined where sales agents were employed. Advertisements were usually placed in the local and national press and also trade

journals. Larger plantations attracted more widespread advertising, including the Financial Times, in an effort to attract institutional investors. The quality of marketing brochures for these woods was also higher reflecting the higher price that was expected from the sales.

3.11 One hundred and twenty seven of the cases we examined (82 per cent by value) were sold after competition (Figure 13). Where sales were negotiated, 15 cases were sold back to leaseholders and 12 were sold to organisations such as the Woodland Trust (Case study H) where other Government agencies had recommended that open market disposal should not apply. In each of these sales the District Valuer provided an independent valuation prior to sale completion. In the remaining 20 negotiated sales there were valid reasons why an open market sale was not appropriate (Case study I).

Methods of sale in cases examined by the National Audit Office

Figure 13



Total value of sales examined by the National Audit Office £28.7 million (174 cases).

127 out of the 174 cases examined by the National Audit Office (82 per cent by value) were completed on the open market after competition.

Source: National Audit Office

Case Study H: Pen Y Coed Woods, Clwyd

The Commission acquired this 27 hectare woodland in 1957 with the objective of supplying local markets in particular the North Wales Coalfield. Following establishment, coppice of mixed hardwoods, mainly ash and sycamore, intruded into low stocked conifer areas to create an attractive mixed species amenity wood. Its value as an amenity wood is further enhanced by its dominant position overlooking the town of Llangollen.



The Commission identified the woods for disposal on the grounds of high management costs and high harvesting costs due to poor access and steep terrain. As part of their standard procedures, the Commission announced they were considering selling the wood in the Estate Gazette in November 1992 and received notice that the Woodland Trust was interested in purchasing.

In March 1994 the Countryside Council for Wales formally notified the Commission that the Woodland Trust wished to buy the property. The Council provided a statement that a private negotiated sale to the Woodland Trust would be particularly in the public interest. In line with sales procedures, the Commission appointed the District Valuer to assess the open market value of the site.

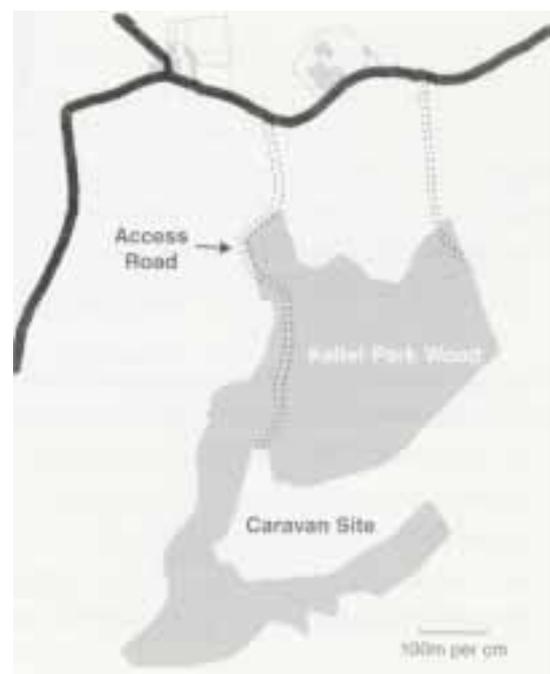
In October 1994 the Woodland Trust announced they had raised sufficient funds to meet the £38,000 valuation and the sale was completed in March 1995.

Case Study I: Kellet Park Wood, Lancashire

This wood was identified for sale on grounds of small size (34 hectares) and distance from the Forest District office (30 miles).

In 1983 the adjoining landowner obtained planning permission to construct a caravan site on his land which was surrounded by the Commission's wood and to which access was through the wood. The Commission considered that management and access problems would result as a consequence of developing the caravan site and, after an approach by the neighbour, agreed that a negotiated sale would be the most appropriate way to divest their interest in the wood.

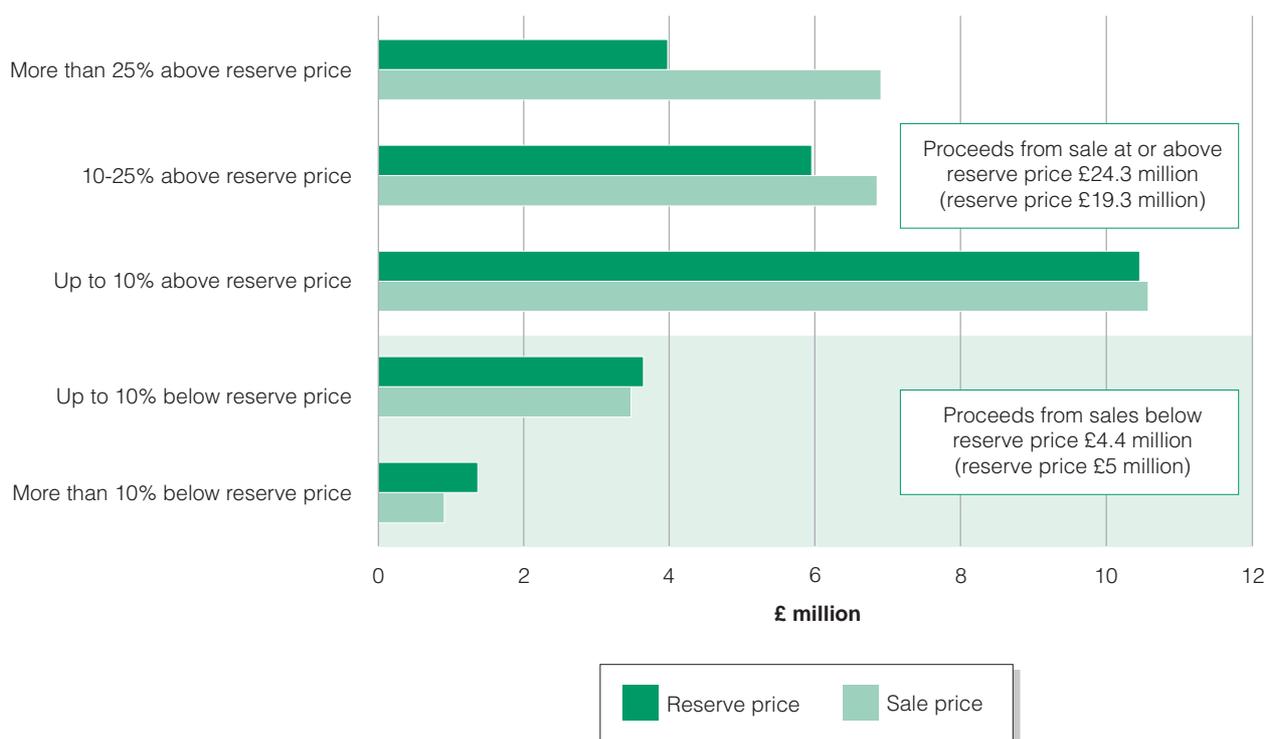
The adjoining landowner withdrew from the sale due to financial problems until resurrecting his interest in 1989. In March 1992 a sale price of £95,000 based on comparative timber prices was agreed and the sale completed in August 1992.



3.12 The total sales value of the cases in our sample (£29 million) exceeded the reserve price value (£24 million) by 18 per cent. The sale price exceeded the reserve price in 81 per cent of the cases examined (Figure 14). In 24 cases sold below the reserve price, the sale was completed after competition and was properly authorised under the Commission’s delegated authority procedures in the light of sales agents’ advice on open market value. In seven of the remaining nine cases sold below reserve price, the Commission accepted the District Valuer’s advice that the price negotiated reflected the full market value of the forest.

Figure 14

Analysis of sale price against reserve price for cases examined by the National Audit Office



Proceeds from disposals amounted to £28.7 million exceeding the aggregated reserve prices of the forests by £4.4 million. Although around one-fifth of the cases examined by the National Audit Office were sold at prices below reserve value, in the vast majority of cases the sale was completed after competition or the District Valuer assessed the open market value of the plantation.

Source: National Audit office

Did the Commission adopt and apply sufficient internal control and monitoring procedures?

Yes. Sales were well controlled, involving senior officials in key decisions. Open market bids for sales were handled by the Commission's sales agents.

3.13 The Commission delegated to Regions specific authority for all aspects of the disposal programme from selecting areas for disposal to concluding individual sales. The Forestry Commission's Headquarters were responsible for monitoring the overall progress of the disposal programme. The Regions' delegated authority excluded sales above £500,000 and those likely to be unduly controversial: these were to be submitted to the Commission's Headquarters for approval.

3.14 We found that Regions generally complied with the guidance. Meetings between key Regional staff were held regularly to discuss disposal progress and the need for proper monitoring of individual sales was adequately reflected in the forward job plans of staff involved in the disposal programme. Regions submitted progress returns to Headquarters promptly and accurately.

3.15 We concluded that for the cases we looked at procedures were followed and sales were conducted properly. Difficulties with sales such as withdrawn bids or unusual offer conditions were rare, arising in only 11 cases examined and in each case the Commission handled them satisfactorily. The Commission liaised closely with sales agents over the receipt of offers and, in the 69 cases we examined where more than one bid was received, the highest bid was accepted.

Did the Commission apply appropriate controls over the cost of sales?

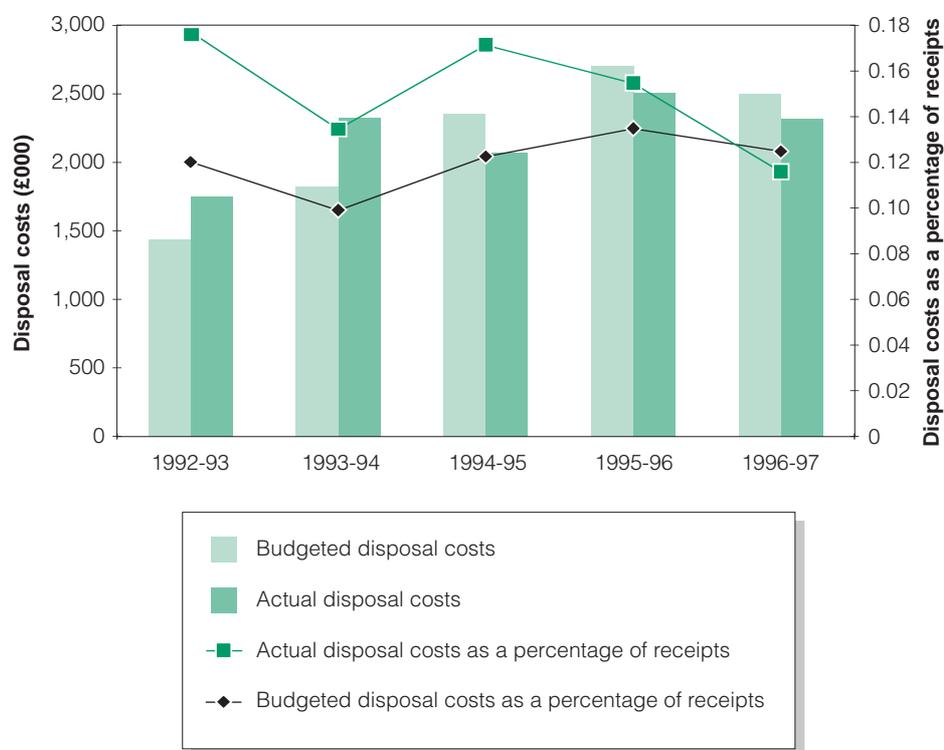
Not completely. The cost of sales between 1992 and 1997 totalled £11 million (15 per cent) of receipts. Costs were monitored through annual budgets and, although outturn has varied significantly against budget in individual years, over the five year period from 1992-93 the budget has been exceeded by only 1.4 per cent. Since 1995 the Commission have operated strict controls for appointing sales agents. Market testing has contributed to reductions of some 30 per cent in sales agents fees and legal services costs. But other fees have not yet been tested in this way.

3.16 The Forestry Commission can identify the external cost of sales agents' fees and legal fees associated with individual sales of forest land and other properties but they do not allocate to individual sales the internal costs, such as administrative staff involved in the disposal of forestry plantations and other assets.

3.17 We found that disposal costs varied significantly against annual budgets and between Regions (Figure 15). Disposals costs averaged 15 per cent of disposal receipts between 1992-93 and 1996-97 across the Commission but ranged from 5 per cent to 35 per cent within individual Regions in any one year. The Commission told us that much of the disposal cost incurred in any one year is in relation to the preparation of sales for future years and that effort directed to preparatory work in individual woods was heavily dependant on the legal and other characteristics of the wood. In recent years the introduction of Continued Public Access agreements and an increase in the complexity of offers submitted by potential purchasers had contributed to increased disposal costs. In the Commission’s view, costs would now decline as much of the preparatory work for the remaining sales programme had been completed. Despite these annual variations, the cumulative disposal budget over the five years from 1992-93 was exceeded by only 1.4 per cent.

**Forestry Commission
cost of sales**

Figure 15



Source: National Audit Office

Disposal costs have varied significantly against annual budgets. However, in the period 1992-93 to 1996-97 the cumulative budget has only been exceeded by 1.4 per cent.

3.18 Sales agents' fees have formed 48 per cent (£2.2 million) of direct disposal costs incurred since 1992-93. Commission guidance since 1995 has required sales agents' services to be tendered for individual sales over £100,000 in value. In only three of the 37 sales examined above £100,000 where the sales agents were appointed before 1995 was the agent appointed after tender. The average sales agents fee for the 37 cases, weighted to take account of sales value, was 1.4 per cent of sales price plus expenses. In contrast, of six cases we examined when the agent was appointed after 1995, tender exercises had been carried out in five of them. In the remaining case the Commission negotiated a lower fee than normal with sales agents. The average winning tender for such cases, weighted to take account of sales value, was 0.9 per cent of sales price plus advertising and associated outlays, representing a 30 per cent reduction in agents fees.

3.19 The Commission do not tender for agents fees on sales valued at less than £100,000 or fees paid for valuations on negotiated sales. They consider that any benefit from tendering agents fees on lower value sales would not justify the administrative cost of tendering. The Commission appoint the District Valuer to assess market value in negotiated sales. They consider that, because few private sector valuers have relevant current knowledge of the forestry market, it would be difficult to avoid conflicts of interest were they to use private sector agents to value negotiated sales. Consequently they have not tendered for these services.

3.20 The Commission contract out the legal work associated with sales completion to a private firm of solicitors in Scotland and to the Government Property Lawyers Agency in England and Wales. Legal work was last tendered for in Scotland in 1996 and resulted in the work being passed to another firm with the expectation that costs would be reduced by some 30 per cent. Legal work in England and Wales, averaging some £150,000 a year, has not been tendered.

**Did the Commission apply
clawback where
appropriate?**

Most of the land planted by the Commission has little scope for alternative uses other than forestry and clawback therefore rarely arises. In the few cases where clawback was an issue, it was allowed for in sale conditions or the price received reflected the development value.

3.21 The inclusion of clawback provisions in sales conditions is a technique used by sellers to secure a share of any increased value in an asset arising from a change in the planning status of the property following disposal. A significant proportion of the Commission's land holding is in remote, upland areas where the terrain is unsuitable even for agriculture. Scope for alternative land use is further limited in those plantations within National Parks and Areas of Outstanding National Beauty and in leased areas where lease conditions limit land use to forestry purposes. Furthermore, under legislation designed to ensure that the level of growing timber

across Great Britain is sustained, areas of forest cannot be cut down without felling licences issued by the Commission. Licences are generally granted on condition that the landowner will re-plant the area felled.

3.22 We found that the Commission gave consideration to the development potential of those areas selected for disposal often through direct contact with local planning authorities. Regional offices routinely contacted local planning authorities for information on development potential for areas identified for disposal and the prospect of alternative uses for forests offered for sale was a consideration in setting reserve prices. In only two of the 174 cases we examined did the Commission consider that the potential for alternative land use existed and in both cases clawback provisions were included in the sale (Case study J). In a further two sales planning permission for change of land use was expected and the sale price therefore reflected the likely increase in value.

Case study J: Laide Plantation, Wester Ross

This 92 hectare forest was identified for sale as part of a planned withdrawal by the Forestry Commission from the area.

After consulting with the local planning authority who indicated that some planned development may be granted, the Commission accepted an offer to purchase in March 1993. Further negotiations between the Commission and the prospective purchaser led to the insertion of a clawback clause in the sale conditions entitling the Commission to 50 per cent of the increase in value of the site arising from the development of more than one dwelling house with garage.

In February 1994 planning consent was granted for the construction of two houses. The property is now back on the open market and the Commission understand that the prospective new purchaser intends to build a second house. They are monitoring the position and will seek their share of development value if the clawback clause is triggered.



Appendix 1

Forest Enterprise objectives and performance measures

Objectives

Financial

- to maximise financial returns on the assets of the estate through wood production and the exploitation of commercial opportunities using private capital wherever appropriate.

Provision of Environmental, Social and Other Outputs

- to develop the recreational and educational potential of the estate;
- to take the action needed to facilitate access by the public on foot extending it as widely as is consistent with the safety of users and with the Commissioner's legal obligations;
- to enhance the environmental conservation and amenity value of the estate including biodiversity and landscape, and to seek and realise opportunities to further the Government's environmental policies;
- to conserve and manage sympathetically areas of special natural and heritage interest.

Efficiency of Service

- to be efficient, cost effective and business-like in all its operations;
- to set and achieve standards of service set out in its Citizen's Charter Standards Statement.

The balance to be struck between particular objectives is decided through a corporate planning process in the light of resources available and the Agency's performance targets.

Performance Measures

Financial Measures

- Cash Surplus
- Profit
- Volume of Wood harvested compared with the production plan
- Return on Capital Employed for Ancillary Trading Businesses
- Income from Disposals

Environmental Measures

- Annual changes to numbers of visitors to Sample Commission Forests in relation to underlying trends of visitor numbers to equivalent countryside attractions
- Percentage of estate covered by forest design plans
- Percentage compliance with forest design plans as monitored by the Forestry Authority
- Percentage of SSSI's managed in accordance with plans endorsed by Statutory Conservation Agencies
- Percentage of land comprising endangered habitats managed in accordance with plans endorsed by relevant authority
- Percentage of scheduled ancient monuments managed in accordance with plans endorsed by statutory heritage agencies

Efficiency Measures

- Percentage compliance with the Citizen's Charter Standards Statement

Rate of Return

- A measure of the rate of return to the public of all services provided by the Forest Estate

Appendix 2

The main features of the National Audit Office examination

Areas Examined	Main features of examination
<p><i>On establishing a programme to meet objectives and satisfy selection criteria</i></p> <ol style="list-style-type: none"> 1. Setting targets 2. Have targets been achieved 3. Reasons for variance between targets and outturn 4. Addressing selection criteria in selecting forests for sale 5. Using disposals to rationalise the forest estate 6. The impact of disposals on public access 7. How disposals address market preference 	<p><i>1. Review of system for monitoring progress</i></p> <p>We examined the systems used by Forest Enterprise to monitor progress towards the targets set in the Ministerial Statement and to meet selection criteria. Examination included:</p> <ul style="list-style-type: none"> ■ review of methods used to apportion targets over the forest estate ■ analysis of planned and actual sales volume and disposal receipts ■ analysis of changes to planned and actual sales programmes over time ■ evaluation of the impact of the disposals programme on rationalisation of the forest estate, public access and market preference <p><i>2. A scoring system to provide objective assessment of disposal candidates against selection criteria</i></p> <p>We developed a scoring system to weight selection criteria in accordance with Commission guidance issued in October 1994. The scoring system was applied to a sample of sold and retained forest areas in three Forest Districts. Forestry consultants were appointed to assess the financial impacts arising from different sales programmes on the Commission's operating surpluses using a sub-sample of woods to which we had applied the scoring system.</p> <p><i>3. Review of methodology for assessing the importance of public access</i></p> <p>The National Audit Office commissioned environmental consultants to review the factors used by Forest Enterprise to assess whether forest areas are important to public access.</p>
<p><i>On whether sales were conducted in accordance with best practice</i></p> <ol style="list-style-type: none"> 1. Whether adequate controls were established to control individual sales 2. Whether appropriate methods were employed for valuing land and marketing forests to maximise sale proceeds 3. Whether the cost of sales was adequately controlled 4. Whether clawback was considered 	<p><i>4. Examination of systems for controlling sales cases</i></p> <p>We examined the procedures set by Forest Enterprise for processing disposal cases against best practice. Examination included:</p> <ul style="list-style-type: none"> ■ the roles and responsibilities of staff ■ methods of sale ■ pre-sale arrangements, including valuation ■ monitoring sales progress ■ offers and acceptance ■ appointment of agents ■ controls over the cost of sales

continued ...

Areas Examined	Main features of examination
	<p data-bbox="774 504 1093 533"><i>5. Case examination and analysis</i></p> <p data-bbox="774 542 1428 750">We tested the implementation of Forest Enterprise guidance by examining a sample of 174 of 1,450 sales concluded between April 1989 and January 1997. Our sample was structured to provide a random selection of sales in each of the Commission's five regions. The sample examined realised some 41 per cent of disposal receipts in the period. Appendix 7 provides more detail on the sampling methodology.</p>

Appendix 3

The Forestry Commission guidelines on the selection of areas for disposal

1989

- 1** Disposal candidates were to be identified which:
 - consolidated the forestry estate so as to maximise the financial performance of the Forestry Enterprise; and
 - achieved the desired composition and structure of the forest estate in the year 2000.
- 2** From this initial list of plantations for disposal, areas were to be removed which were:
 - in production and which contained significant volumes of spruce small-roundwood due for harvesting in the period up to 1995; and
 - heavily used by the public and contained significant recreation facilities.
- 3** Further issues to consider when selecting areas for disposal:
 - consideration of financial performance should not be limited to the current crop but should take account of the costs and revenues of the successor crop;
 - plantations containing no recreation facilities but well used by the public, plantations containing only modest recreation facilities and plantations which are only infrequently used or have an undeveloped recreation potential, will not qualify for retention unless for other reasons;
 - there should be no assumption that a Forestry Enterprise presence will be maintained in each and every part of the country. The winding-up of some Enterprise Forest Districts in toto is currently not ruled out;

- landscape, amenity and conservation are not regarded as constraints on disposal. Blocks containing Forest Nature Reserves should not be excluded on this ground alone. Sponsorship offers a way out of the difficulties of selling these;
- research experiments and seed orchards should not be excluded from the initial identification, but should be identified for later detailed evaluation; and
- maintenance of employment should not influence the initial identification.

1993

1 Regions were asked to review their estate and identify forests for disposal in two categories:

- forests which were clear rationalisation subjects, the sale of which would not conflict with Ministerial selection guidelines; and
- forests the sale of which are more sensitive in relation to the Ministerial guidelines and would impact on core forest areas, the sale of which could involve reducing economies of scale but which are required to meet targets.

Criteria for the review

2 The principal basis for the review is the rationalisation of the estate in accordance with the Minister's statement. This is to take into account the Commission's multi-purpose remit and the need to ensure the woods with major recreation, conservation and public access are retained where they do not conflict with the other criteria. The review is therefore to be conducted on the basis of selected criteria which arise out of the selection guidelines established by Ministers in 1981.

3 The criteria that are to be used and considered in preparing the programme are as follows:-

a) Rationalisation and financial performance

- achievement of the 100,000 ha target

A sufficient number of larger woodlands (which will vary in size in different Regions) will be included in order to achieve the 100,000 ha target.

- supervision and management

Particular attention will be paid to outlying woods of whatever size and there must be strong reasons why these are not selected for disposal.

- Forest District

Consideration should be given to further Forest District amalgamations, with the resulting outliers being selected for sale.

- management problems

The opportunity should be taken, where appropriate, to select for disposal forest properties with inherent management problems, eg those arising from a lease or feu such as public access restrictions, or from poor lorry access or persistent arson etc.

- low yielding conifer crops

The opportunity should be taken, where appropriate, to select conifer plantations of low productivity.

- break-even

The opportunity should be taken, where appropriate, to select plantations which will require significant expenditure over the next ten years and to avoid those which will generate a strong cash flow in the same period, for instance stands reaching maturity.

(b) Wood production

Plantations selected for disposal should not include those which will prohibit the Commission's ability to meet existing long term contracts.

(c) Recreation

Plantations selected for disposal should not include those which:

- contain major Forest Enterprise recreational facilities such as a visitor centre, cabin site or Class A and B campsite;

or

- are designated or being considered as a Woodland Park;
- are or will be actively managed as part of a recognised initiative eg Community Forests, New National Forest or the Sherwood Forest Initiative or the Valleys Forest Initiative;
- contain other important recreational facilities such as forest walks, trails, riding routes, youth campsite or similar or are otherwise heavily used by the general public.

The only exception to the above will be outlying blocks where the last indent applies.

(d) Conservation

There is a presumption against disposal of plantations containing:-

- woodland Sites of Special Scientific Interest;
- Forest Nature Reserves;
- native pinewoods;
- other areas of significant conservation interest;

unless they are patent outliers.

1995

- 1** Regions were asked to select areas for disposal in two parts.
 - sift 1 was aimed at identifying woods for disposal which comprise normal business rationalisation with particular reference to the Ministerial selection criteria of rationalisation and public access; and

- sift 2 was based on large forests in order to meet the market criteria and to provide specific opportunities for the development of the private sector. Criteria were to be applied as sift 1 but there was to be a minimum area of 500 hectares in Wales and 1,000 hectares in Scotland.

Criteria for the review

(a) Rationalisation

The woods to be selected for sale are those that make the lowest contribution to the Commission's objectives by virtue of:

- being costly to manage - or forest operations are costly - for instance by virtue of small size in relation to the Enterprise's remaining core estate;
- having inherent management problems - eg arising from a lease or feu with public access restrictions from poor lorry access or persistent arson;
- leaseholds where title constraints limit public access and recreation and which are **not** potential candidates for freehold acquisition;
- being woods the sale of which would help to improve the age balance of the Commission's remaining core estate;
- requiring significant net expenditure over the next ten years.

(b) Public access

A classification of degree of public access is being developed by an inter-Departmental working party, but is likely to be on the following lines:

- a wood will fall into the "high" category if all four of the following conditions are met:
 - the wood is a recognised destination for countryside recreation visits;
 - if the wood was sold, the area of woodland access within a five mile radius would fall to below one hectare per 500 people (this is analogous to a criterion for the community woodland supplement eligibility);

- the wood is visually attractive;
- there are Forestry Commission car parks and/or waymarked trails in the wood;
- a wood will fall into the “low” category if all three of the following conditions are met:
 - no Forestry Commission signs suggesting access facilities (eg car parks);
 - not a destination for countryside visits;
 - not used for specialist recreation activities such as horse riding and orienteering;
- all other woods will fall into the “medium” category.

There will be a presumption against the sale of areas with high and medium access. Where a combination of factors overwhelmingly indicate sale disposal will normally only be contemplated if a Continued Public Access Agreement is in place or continued public access can be guaranteed by the buyer. If no agreement can be made and there is regular public use, the proposed sale will be referred to Ministers.

The above categories will be revised when the inter-Departmental working party has completed its work.

(c) Financial implications

Disposals, along with other organisational changes, have contributed in the past to improvements in management productivity and have facilitated a number of Forest District amalgamations. Disposals will continue to be selected so that they contribute to a reduction in management overheads.

More specific guidance is given under the rationalisation criteria.

The financial implications of the disposal programme will be worked out as part of the review.

Public accountability aspects are covered under our normal disposals methodology and no issues arise from this review.

(d) The wood processing industry

The sale of forests to the private sector does not necessarily deprive the wood processing industry of timber, although the timber may be marketed in the future by the private sector in a more erratic or opportunist way. Disposals will be selected with the following criteria in mind:

- meeting in full the Forest Enterprise's long term contract commitments;
- not prejudicing a year on year increase in our overall wood sales; or the wood volume targets in Forest Enterprise's existing Public Expenditure Survey;
- not eroding the capability of an individual Region (which can broadly be regarded as a marketing entity) to maintain a sustained supply of wood to the market;

The overall effect of the disposals on wood production will be calculated.

(e) Employment

The Commission's direct workforce has been reduced from 5,785 in 1981 to 2,100 in 1993. Circumstances have therefore changed since the disposal programme was introduced. The further impact of disposals on the industrial workforce is likely to be minor, and will be calculated as part of this review. The non-industrial workforce is in the main mobile and any individuals displaced through the effect of disposals will be deployed elsewhere in the organisation.

(f) Conservation, research and education

There will be a presumption against disposals within Forest Parks Woodland Parks and Forest Nature Reserves.

There will be no presumption against disposal of forests in Sites of Specific Scientific Interest, Areas of Outstanding Natural Beauty, National Scenic Areas and National Parks. These are all designations external to FC with safeguards built in to legislation/planning controls which should be sufficient to safeguard the environmental features.

There will be no further consideration on the sale of Forestry Commission woodlands in community forests having considered public access under b) Public access.

The importance of research areas will need to be evaluated on an individual disposal basis by Director Research. For research plots which need to be retained in Commission management, efforts will be made to enter into a lease or management agreement with the new owner and there will be no presumption against sale. Regional Directors will be responsible for discussing individual cases with Director Research.

g) The market

Forests which are rationalisation subjects for the Forest Enterprise are not necessarily unattractive to private buyers. Forests of small size and those remote from Forest Districts will particularly appeal to local landowners.

In the past there has been considerable emphasis on the sale of small woodland blocks. In 1993-94 84 per cent of cases representing 20 per cent of the area sold, were less than 20 hectares in size.

In order to widen the market spread, the Commission will sell a proportion of large forests in the forthcoming period.

Appendix 4

Forestry Commission efficiency measures

	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97
Surplus/(deficit) of Income Over Expenditure (£ million)	(30.7)	(32.2)	(18.1)	(5.4)	0.9	9.0
Management Overheads and Administration Expenses						
Forest District (£ million)	19.5	22.1	22.2	22.1	23.6	22.9
Regional Office (£ million)	8.1	7.7	7.0	8.8	8.5	7.9
Head Office (£ million)	10.1	7.9	7.2	4.9	5.7	5.7
Total (£ million)	43.2	41.5	39.0	37.6	38.7	36.5
Unit Cost of Harvesting						
Forest cost (£ per m ³)	15.98	15.03	14.49	13.71	13.59	13.34
Management cost (£ per m ³)	4.55	3.64	3.21	3.13	3.17	2.97
Total (£ per m ³)	20.53	18.67	17.7	16.84	16.76	16.31
Harvesting Programme						
Standing sales (million m ³)	1.7	1.8	2.0	2.0	2.1	2.3
Felled timber	2.2	2.3	2.3	2.3	2.2	2.3
Total (million m ³)	3.9	4.1	4.3	4.3	4.3	4.7
Restocking programme (ha)	8,260	8,475	7,904	7,877	7,490	7,717
Forest Enterprise Staff Numbers						
Non-industrial	1,350	1,231	1,204	1,152	1,094	1,005
Industrial	2,367	2,227	2,051	1,901	1,791	1,689
Total	3,717	3,458	3,255	3,053	2,891	2,694

Note: All figures are at 1996-97 prices

Appendix 5

The Forestry Commission's checklist for assessing levels of public access

Name of Wood:

OS Grid Ref:

Criteria	Number /or details	Factors suggesting access is important?	
		Yes	No
Number of visitors* (specify number on typical summer's Saturday or Sunday)			
Number of houses within a mile's walk of the access points to the wood (specify number)			
Public footpaths in the wood:			
<ul style="list-style-type: none"> ■ public rights of way/bridleways; ■ national trails/long distance routes; ■ strategic Regional routes (specify) 			
Are there formal recreation facilities in the wood:			
<ul style="list-style-type: none"> ■ picnic tables; ■ car parks; ■ signs; ■ toilets; ■ waymarked trails; (specify) ■ visitor centres; 			
Is there formal education use (specify type and frequency)			
Other recreation use in the wood: ie horse riding/ orienteering, cycling (specify type and level of use /week)			
Is the wood in a nationally designated area:			
<ul style="list-style-type: none"> ■ National Forest; ■ Community Forest; ■ National Park; ■ Area of Natural Outstanding Beauty; ■ Regional Park (Scotland) 			

continued...

Criteria	Number /or details	Factors suggesting access is important?	
		Yes	No

Is there alternative countryside access:

- within one mile radius;
- within ten miles radius (*specify*)

In difficult cases the actual use will be validated by surveys.

Conclusions

From these results do you judge access to this wood to be important **YES/NO**

If YES - sale should only take place if an access agreement is in place or the purchaser is able to guarantee continued public access.

If NO - Local authority will be offered an opportunity to enter into an agreement but sale may take place without one.

Assessment carried out by.....(Name) Date.....

Assessment agreed by.....(Name) Date.....

(Note: this form when completed will be copied to the local authority with notification of sale of wood)

Appendix 6

National Audit Office scoring system for forest disposals

1 The National Audit Office used the Forestry Commissioner's guidance on the selection of areas for disposal issued to Forest Regions in October 1994 to develop a scoring system with which to measure whether forest managers selected the most appropriate areas for sale. The scoring system was applied in three Forest Districts - Ae in South Scotland Region, Llandovery in Wales Region and Somerset and South Devon in South and West England Region- using as a sample all areas identified for sale under the guidance plus a similar number of forests which were to be retained.

2 The scoring system awards a series of points to each forest based on a number of factors identified in the Commissioner's guidance which were to be taken account of when selecting areas for sale. The total score for each forest was calculated according to the formula:

$$\text{Score} = (R + A + L + S + M + R_o + F + H) * P * W * E * C$$

where:

- R = scores for area and distance from Forest District office
- A = scores for poor lorry access
- L = scores for leasehold
- S = scores for improving the age structure of the remaining estate
- M = scores for management expenditure
- R_o = scores for incomplete forest roading
- F = scores for continuing fencing burdens
- H = scores for high net harvesting costs
- P = scores for public access
- W = scores for effect on the wood processing industry
- E = scores for continuing employment
- C = scores for conservation

Under this system the maximum score per block was 46. The higher the score the more compelling the case for disposal.

Forestry Commission guidance

National Audit Office scoring system

1. The woods to be selected for sale are those that make the lowest contribution to the Commission's objectives by virtue of:

- being costly to manage - or forest operations are costly - for instance by virtue of small size in relation to the Enterprise's remaining core estate;
- having inherent management problems- eg arising from a lease or feu with public access restrictions, from poor lorry access or persistent arson;
- leaseholds where title constraints limit public access and recreation and which are **not** potential candidates for freehold acquisition
- being woods the sale of which would help to improve the age balance of the Commission's core estate
- requiring significant net expenditure over the next ten years

2. There will be a presumption against the sale of woodland unless public access is assessed as low

3. Disposals will be selected with the following criteria in mind: meeting the Commission's long term contract commitments; not prejudicing a year on year increase in wood sales or wood volumes targets; and not eroding the capability of an individual Region to maintain a sustained supply of wood to the market.

4. The further impact of disposals on the industrial workforce is likely to be minor and will be calculated as part of this review.

5. There will be a presumption against disposals within Forest Parks, Woodland Parks and Forest Nature Reserves

In 1983 the Forestry Commission defined rationalisation subjects as those under 50 hectares and at least one hours travelling time from local offices. The scoring system used a sliding scale to assign points according to the forest area and distance from the Forest District Office - forests less than 50 ha in size and more than 50 km from the local office received a maximum ten points; those more than 110 ha in size received zero points.

Forests with poor lorry access were assigned a maximum of four points. Factors taken into account included: distance from the public road; whether the access was made up; difficulty of the terrain to be crossed ; and whether access crossed a neighbour's land. Points were awarded on a sliding scale in relation the Forest District's woodland as a whole.

Forests liable to persistent arson were assigned a maximum of four points. Points were awarded on a sliding scale according to the Forest District's susceptibility to arson as a whole.

Leasehold woods were assigned a maximum of four points. All leasehold woods were awarded at least one point with other points being assigned according to how onerous lease conditions were eg constraints on use or access, relationship with the leaseholder etc.

Forests were awarded a maximum of four points under this category. To achieve any points a forest had to be large enough to have a significant impact on the age profile of the Region's estate holdings.

Points were awarded, subject to a maximum of four under each heading, to each of: significant management expenditure; whether roading within the forest was to be required within the next ten years; continuing fencing burdens over the next ten years; high net harvesting costs over the next ten years. Forests were awarded points in relation to expected expenditure relative to Forest District average costs eg below District harvesting costs received zero points, 20 per cent above District average harvesting costs received one point etc.

Low access woods were awarded one point, otherwise zero points were assigned

Woods were assigned a score of either zero or one. To achieve a zero score the forest had to produce timber in sufficient quantities or of a particular species so as to jeopardise the Commission's ability to meet its market demands over the next ten years.

Forests were awarded a score of zero or one. Scores of one were awarded unless disposal of a particular forest would have resulted in job losses.

A score of zero was awarded to those forests falling within these categories otherwise a score of one was assigned.

Appendix 7

National Audit Office sample of sales cases

1. The National Audit Office study team examined in depth a sample of 174 disposals out of a total of 1,444 forest land sales between April 1989 and January 1997.

2. The sales examined in detail realised £28.7 million out of a total of £71 million generated in the period. The sample selected covered all sizes of forest sold and all of the Forestry Commission's five Regions, whilst concentrating on large sized disposals. From expert statistical advice received, the sample size was sufficiently large to enable conclusions to be drawn for the Forestry Commission's sales performance as a whole.

Figure 16

Sales examined by the National Audit Office

Forest area (ha)	Sales examined by the National Audit Office				All sales April 1989 - January 1997		
	Number	Area(ha)	Value (£ million)	% of all sales (by area)	Number	Area(ha)	Value (£ million)
0-19	30	277	0.542	4.1	935	6,769	15.082
20-49	36	1,158	1.644	12.8	288	9,063	15.514
50-99	40	2,796	4.266	38.1	105	7,331	10.934
100-199	29	4,048	4.349	42.5	67	9,523	9.672
200-499	26	8,362	6.394	83.2	33	10,047	6.964
500 & over	13	13,759	11.527	83.2	16	16,535	13.008
Total	174	30,400	28.722	51.3	1,444	59,268	71.174

Appendix 8

Summary of Public Accounts Committee recommendations on the disposal of assets

Issue	PAC recommendation
<i>1. Strategy and preparation for sale</i>	The success of the disposals programme will depend heavily on the quality of professional judgements but it is important that these are exercised within the framework of a well considered strategy, supported by reliable information and sound procedures and controls. We endorse the principles for a comprehensive forward disposals strategy directed towards clear and specific disposal objectives, and fully implemented without delay. (10th Report 1986-87, para 22 (ii), HC 234)
<i>2. Method of Sale</i>	Assets should be exposed to the market unless there are compelling reasons to the contrary. All exceptions to competitive tender, including sales to tenants, should be subject to strict controls. (10th Report 1986-87, para 12, HC 234)
<i>3. Sales to Tenants</i>	We recommend*... agents are employed to negotiate with tenants... the aim to achieve 50 per cent share of marriage values.6. (10th Report 1986-87, para 15, HC 234)7. * Note: the Government response was that the use of agents in such circumstances would be left to the discretion of the body concerned.
<i>4. Marketing</i>	Departments should ensure that marketing strategies are validated before a sale is undertaken. (9th Report 1990-91, para 3(iv), HC 119)
<i>5. Sale Conduct</i>	... all offers received prior to a binding legal agreement being entered into should be thoroughly investigated and the bidders given the fullest opportunity to establish their financial credentials. (12th Report 1990-91, paras 3(i) 3(ii), HC 374)
<i>6. Valuations</i>	We underline the importance that sales are backed by up to date valuations, particularly in marriage value transactions and in cases where delays occur in the course of negotiations. (10th Report 1986-87, para 17, HC 234)
<i>7. Cost of Sale</i>	Departments must give careful consideration in advance of sale campaigns to fix budgets and target marketing expenditure towards identified sales objectives. (34th Report 1987-88, para 3(ix), HC 211)
<i>8. Monitoring</i>	Where responsibilities have been properly delegated the degree of detailed monitoring by the sponsoring department is a matter of judgement... it will be increasingly important to keep such judgements under view in ways that do not undermine initiative or encourage "second guessing" of decisions taken by responsible management. (12th Report 1990-91, para 3(v), HC 374)
<i>9. Clawback</i>	<p>Where land is considered to have development potential, serious consideration should be given to all the options for protecting the taxpayers' interest, including a separate sale or the use of clawback provisions. (13th Report 1989-90, para 3(v), HC 352)</p> <p>We encourage bodies to consider the clawback provisions over, say, five years in all cases where there are real doubts over the basis for valuation and the possibility of windfall profits to the purchaser. Clawback should not be so frequently used as to interfere with orderly and timely disposal. (10th Report 1986-87, para 20, HC 234)</p> <p>The case for selling property subject to clawback conditions should be considered on its merits in each case. (22nd Report 1993-94, para 3(v) HC 210)</p>