

# Supporting Business Development

The role of Forestry Commission Scotland



**natural  
scotland**  
SCOTTISH GOVERNMENT

# Supporting Business Development

## Introduction

The Scottish Government's economic strategy is to create a more successful country, with opportunities for all of Scotland to flourish through increasing sustainable economic growth. The forestry sector contributes to a number of the Government's national outcomes by providing skilled employment, investment opportunities, CO<sub>2</sub> savings, and attractive built and natural environments. One of the key aims of the Scottish Forestry Strategy<sup>1</sup> is to encourage competitive and innovative businesses to deliver this. The purpose of this document is to provide a strategic framework for supporting business development on the Forestry Commission Scotland estate, and for stimulating wider economic development in the Scottish forest industries.

## Context

Scotland's forest industry operates in a global market, providing commodity products, goods aimed at niche markets and a whole range of woodland-based services.

The global market impacts on our timber products, our tourism assets, and our capacity to add greater value to the forest industry resource. This impact has never been greater than it is today, with the difficult economic climate and collapse of the housing market reducing both demand and prices simultaneously. To react effectively requires a shared understanding that business developments, in both the public and private sectors, should be complementary. This strategic framework adopts a holistic approach to business development across the whole spectrum of forest industry activity. There are two main ways in which business development takes place:

- At a physical level, on either the public or private forest estate, where infrastructure and tangible assets tend to be the outcome, and
- At a facilitation level, where Forestry Commission Scotland works, often in partnership, to provide an enabling framework within which business development can take place.

## The rationale for Forestry Commission Scotland support

Some 90%<sup>2</sup> of Scotland is defined as 'accessible rural to very remote rural', and this contains almost all of the public and private forest estate. With some exceptions, mainly in the primary and secondary-processing sector, the bulk of business activity occurs in the rural environment. There is thus a very strong argument that the main focus of Forestry Commission Scotland business development activity ought to be concentrated on rural areas. However, we also have an important role to play in urban green space regeneration, and this is taken forward through the Woodlands In and Around Towns initiative<sup>3</sup>.

The principal justification for Forestry Commission Scotland support for business development is to deliver public benefits in situations of market failure and where existing forms of intervention (such as regulation, grant aid and advice) are not enough.

As managers of the national forest estate, Forest Enterprise Scotland also has a responsibility to provide value for money to the taxpayer. Public sector involvement in timber growing and production helps to minimise the call on public funds, and at the same time delivers a wide range of other benefits. This is entirely consistent with our responsibility under the Forestry Act, which charges the Commissioners "with

<sup>1</sup> [www.forestry.gov.uk/sfs](http://www.forestry.gov.uk/sfs)

<sup>2</sup> Social Focus on Urban Rural Scotland 2003 - [www.scotland.gov.uk/publications](http://www.scotland.gov.uk/publications)

<sup>3</sup> [www.forestry.gov.uk/wiat](http://www.forestry.gov.uk/wiat)

the general duty of promoting the interests of forestry, the development of afforestation and the production and supply of timber and other forest products in Scotland, and in England and Wales”.

Forestry Commission Scotland facilitates and complements the roles of the private sector and the other state sector players. Our support for new business development proposals will be guided by clear objectives about its purpose and function, and will have as its rationale at least one of the following three main objectives:

- The stimulation of new or increased sustainable economic development
- The generation of profitable revenue
- Addressing issues of social inclusion



## When support for business development is appropriate

We will use the following set of **guiding principles** to ensure that projects are developed and assessed in a consistent way to deliver best value for money. To support the principles, Appendix 1 provides a decision tree for considering any potential land based projects with a business development opportunity.

**When there is clear evidence of market failure, and there is an identified need or opportunity for development.** To determine whether market failure is a justifiable reason for supporting development, a test is needed to decide whether the failure is short term, or a more inherent problem. As intervention has both costs and risks, an identification of market failure does not necessarily lead to the assumption that intervention is justified. Analysis should assess any proposal to see if it provides credible evidence pointing to:

- The presence of significant market problems that are unlikely to be mitigated by market forces over a reasonable period of time;
- A strong likelihood of net (economic) benefit from any intervention; and
- Public benefits which are significantly greater than the costs of provision.

Carrying out this sort of analysis can be time consuming and require specialised knowledge. We will develop a straightforward methodology to allow the test to be completed in a consistent and simple way.

In this context, using a pump priming approach to developing new markets and/or products, which could then be handed over to the private sector for further investment and development, would also be an appropriate reason for providing support.

**When proposed developments are consistent with the Scottish Forestry Strategy and support its implementation.** As a general principle, support for business development should complement other Forestry Commission Scotland policies, whether economic, environmental or social.



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**Where there are gaps in support from other mechanisms.** There is a wide range of support for business development in Scotland, from the Scottish Government itself, to Scottish Enterprise, Highlands and Islands Enterprise, and Local Authorities. Forestry Commission Scotland support will complement that already provided to avoid overlaps and inefficient use of resources.

**Where the expected return on investment is significantly greater than the cost.** Developments of this sort are likely to be undertaken by Forestry Commission Scotland on the national forest estate as a result of new business opportunities, such as renewable energy, sites for radio masts, and mineral extraction. As such, they will be subject to a full business plan process, and thorough economic evaluation.

**When any support provided conforms to State Aid regulations.** Failure to comply with the regulations could leave Forestry Commission Scotland vulnerable to European audit processes.

## Our main priorities for providing support

**Timber and processing sector development.** Sector competitiveness relies on consistent and reliable supplies of timber from both the private sector and the national forest estate. The provision of accurate production forecasts is a key requirement, as is the development of a skilled and motivated workforce.

**New woodland creation and management of the existing resource** is a prerequisite for a strong and profitable forest industry. The aspiration in the Scottish Forestry Strategy is to increase forest cover in Scotland to 25% in the second half of this century. This will require properly targeted support if it is to be realised. We expect the private sector to lead on this, with support through appropriate mechanisms. The national forest estate will play its part through, for example, Forest Enterprise Scotland's repositioning programme. The Scottish Government has laid out a rational for woodland expansion in Scotland<sup>4</sup> to aid the process.

**Tourism sector developments.** Forestry Commission Scotland has formulated a modern framework for its investment in tourism and recreation<sup>5</sup> on the national forest estate. This is aimed at focussing development in ways that complement other provision, and encourage business opportunities for the private sector. The distinction between recreation and



<sup>4</sup> [www.forestry.gov.uk/aboutfcs](http://www.forestry.gov.uk/aboutfcs)

<sup>5</sup> [www.forestry.gov.uk/aboutfcs](http://www.forestry.gov.uk/aboutfcs)

tourism is frequently a blurred one, as the provision of facilities for one often supports the other. In this strategic framework, tourism is considered to encompass activities that support business development, as opposed to recreation where the primary outcome is focussed on social inclusion.

A highly trained and motivated workforce is a key requirement for continued industry competitiveness. This requires **improved skills**. The forest industry has to work in concert with organisations, such as LANTRA and Skills Development Scotland, to both improve existing skills and promote the industry as an attractive career choice for young people.

**Carbon offsetting** is an important new development area with both major potential and risks. A Forestry Commission Working Group is preparing a code of good practice for forestry carbon offsetting. This will form the basis for a forestry carbon quality assurance scheme.

**National forest estate development.** New opportunities for business development range from new woodlands to renewable energy from windfarms, micro hydro generation and biomass. Where opportunities for development are identified on the national forest estate and can be accommodated within our other objectives, land will be made available to allow such development. The Framework Strategic Plan<sup>6</sup> produced by Forest Enterprise Scotland provides more detail on some of these opportunities. This strategic framework will allow us to determine priorities and appropriate business models to use, to ensure that best value for money is obtained whilst adhering to Public Sector Procurement Regulations which call for an open, fair and transparent competition for all opportunities which arise.

**Renewable energy** also represents a significant area of growth for the sector. The recent developments by E.ON at Lockerbie, UPM-Kymmene at Irvine, and Balcas at Invergordon, coupled with projects supported by the Scottish Biomass Support Scheme have established a strong biomass market. The momentum generated by these projects must continue to allow the industry to reach sustainable critical mass.

**The social and environmental aspects of forestry** offer business development opportunities. However community forests (including Woodlands In and Around Towns) are not a key focus of this strategy.

Projects which lead to the generation of wealth and quality jobs through direct or indirect support in remote rural areas deserve a high priority, providing they meet the various tests and criteria above. An updated framework for forestry and communities is in preparation.



<sup>6</sup> [www.forestry.gov.uk/aboutfcs](http://www.forestry.gov.uk/aboutfcs)

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## How Forestry Commission Scotland will provide support

Forestry Commission Scotland will adopt a hierarchy of intervention in the way in which it supports business development. Four levels of support exist within this hierarchy.

1. **Awareness raising** – where the requirement is research, the provision of advice, some facilitation, or dissemination of information, for example, through a conference or seminar organised or supported by Forestry Commission Scotland.
2. **Partnership facilitation** – where Forestry Commission Scotland works together with one or more organisations to bring about desired outcomes.
3. **Grants and direct support** – where Forestry Commission Scotland targets financial and other direct support to help other players to achieve desired outcomes.
4. **Direct Intervention** – where the public interest is best served by Forestry Commission Scotland direct activity on the national forest estate.

### Awareness raising

A wide variety of initiatives have been undertaken in recent years. These include the provision of development officers in Conservancies, and wood fuel and tourism project officers. Where possible, we leverage our resources with funds from partners or Europe in providing these posts, and as such they represent both significant additional capacity, and the provision of specific expertise to tackle new areas of opportunity.



The **Forestry Development Programme** funds a wide range of projects, such as the Timber Development Programme<sup>7</sup>, with the aim of increasing the contribution of forestry to all sectors of society through:

- enabling effective multi-sectoral partnerships;
- supporting initiative and innovation in the forestry sector; and
- building a strong evidence base of forestry benefits and best practice.

### Partnership facilitation

As a partner, Forestry Commission Scotland can achieve far more than our resources would enable us to do on our own. Our partners value this approach, and we also believe that, in the long-term, this is the best way of promoting a strong and independent forestry sector.

Examples of our current partnership activities include:

The **National Forest Land scheme**, which allows communities to purchase land on the national forest estate, where it is in the public interest to do so. This can provide a potential springboard for future

<sup>7</sup> [www.forestry.gov.uk/scotland](http://www.forestry.gov.uk/scotland)



business development by the communities. The scheme also allows registered social landlords to purchase land at affordable housing valuations to assist those in housing need. The scheme now includes a woodland crofts element.

The **national forest estate**, managed by Forest Enterprise Scotland, plays a key role in supporting the continued growth of the timber processing sector and the wider Scottish economy. The use of long term contracts, innovative tendering practices, shared roading, assisting niche markets, and providing land for development and affordable housing are all examples of partnership facilitation. Forest Enterprise Scotland will continue to work with the industry to maintain stability and confidence in forest operations, particularly through difficult economic times.

The **Woodfuel Taskforce** brought together a range of players from across the biomass sector, to identify and secure increases in the available volume of woody biomass from Scotland's forests, and the wider agricultural and waste/recycled sectors. This work has identified further development opportunities for both industrial development, and raw material production.

The **Highland Birchwoods** partnership promotes and stimulates the development of a local woodland economy and culture in the Scottish Highlands. The emphasis is on local economic, environmental and social benefits, integrated forest management and product innovation and new resource information to support strategic rural development.

Inward investment projects were directly supported through the provision of officers on secondment to the **Scottish Forest Industries Cluster**. Partly as a result of this, the level of inward investment has increased during the last few years, with some major projects now underway. We are represented on the **Forest Industries Advisory Board**, and will continue to work with the industry members to improve sector competitiveness.

We recognise that the enterprise network, with other agencies, is best placed to lead on **training and skills development** for the private sector. However, we support this by raising awareness, requiring minimum standards from our contractors, and engaging in industry wide policy initiatives. We will develop closer relationships with the enterprise network, and other skills providers, to deliver a more cost effective and comprehensive service to the whole sector.



Since 2003, 29 projects with a business development perspective have been initiated with a range of different partners, supported by **European funding**. The total value of the projects is currently in excess of £13 million, and our contribution averages around 25%. This 3:1 leverage rate allows us to provide additional public benefit from our limited resources.

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## Grants and direct support

The £13m **Strategic Scottish Timber Transport Fund** has generated a significant amount of business development in both infrastructure, and innovation. To date 23 projects have been successful in securing over £7.5 million of funding through the Scottish Timber Transport Scheme. In addition, the fund has helped to set up and support the Timberlink shipping service on the west coast. The scheme will continue until March 2011.

The first **Scottish Biomass Support Scheme** assisted 67 projects across Scotland. A successor scheme to support heat from biomass was launched in December 2008.

Grants for new planting, restocking and forest management have been a major method of direct support for forestry since 1945. With the advent of the new **Scottish Rural Development Programme (SRDP)**, the mechanism for delivering grants has been streamlined into a common process for land based activity. The programme offers funding for a wide range of business development opportunities. We will encourage the sector to take full advantage of the grants that are available.

## Direct Intervention

The **Forestry Business Units** have been tasked with increasing external revenue streams for the Forestry Commission. The remit is strongly focussed on generating profitable revenue. Some activities will lead to us taking a more direct role in development, for example with windfarm project consents. Forestry Business Units and Forest Enterprise Scotland are currently developing a strategy for evaluating a range of potential leasing opportunities on the public sector estate. These include hydro and wind power schemes. We will also explore opportunities for synergies with neighbours as part of this process. We will continue to make available at market value land suitable for appropriate development. This will be by means of sale or lease and following the appropriate marketing process in line with our responsibilities to provide value for money for the taxpayer.



**Annual forest related tourism and recreation** expenditure in Scotland is worth at least £209 million. It is estimated that this supports around 18,000 FTE jobs in the sector. Most of this expenditure is captured by existing tourism businesses, which have limited awareness of the contribution that forests make to their income. Very little income is captured by landowners that provide the recreation infrastructure. Forestry Commission Scotland has established directions for investment in tourism and recreation<sup>8</sup>. Broadly these aim to encourage non-state provision of high-quality forest recreation, with complimentary state provision of major tourism facilities where it meets the guiding principles outlined above. Key objectives are to significantly enhance Scotland as a tourist destination, to contribute to the economic development of low income/high unemployment areas, and serve as a national exemplar of best practise.

<sup>8</sup> [www.forestry.gov.uk/aboutfcs](http://www.forestry.gov.uk/aboutfcs)



**Timber production** from the national forest estate has supported, and will continue to support, the development and growth of a competitive and dynamic processing sector. Forest Enterprise Scotland's Framework Strategic Plan<sup>9</sup> sets out the key priorities for the future focus of the national forest estate. By working together with the private sector, future peaks and troughs in timber supply can be reduced. This will help to ensure a smooth transition as private sector supplies become increasingly important for Scotland's wood processing industries. It is also important that the implications of changes in forest management practice on the national forest estate find expression in revised long-term production forecasts. These will both help the wood processing industry plan future investments, and will also provide information on log quality as well as volumes.

## Gaps in current provision of support

We believe the six areas outlined below are those where increased business development support from Forestry Commission Scotland is most needed, appropriate, and will be most productive.

The **Scottish Rural Development Programme** contains a number of measures over and above forestry management and woodland creation, which offer major opportunities for new business development. Ensuring that the forestry sector is able to make full use of these resources will require guidance and support for rural businesses, micro enterprises, and the farming community. This support needs to be well targeted, appropriate, and professional, and delivering this will require a new skill set for those staff providing it.

**Actions to deliver this are embedded in the latest Scottish Forestry Strategy implementation plan.**

The lack of **skills in rural areas** is posing severe problems for companies wishing to expand or start up. Schemes such as the modern apprenticeship scheme are directly addressing this, and are starting to have a beneficial effect, but require greater scale and scope. Addressing the issue of skills will bring additional opportunities to the area, and make a significant contribution to the provision of local services and community cohesion. **Forestry Commission Scotland will work with education and skills providers, such as Lantra and Skills Development Scotland Ltd., to identify critical gaps in provision, and potential solutions to them.**

The developing **renewable energy** sector represents a major opportunity for well co-ordinated, strategically located projects related to biomass, wind, and micro hydro generation. As recommended by the Wood Fuel Task Force, locally produced wood fuel should, where possible, be used in local heating schemes. This will encourage the development of local wood fuel clusters. **Forestry Commission Scotland will review the implementation of the Wood Fuel Task Force recommendations, and scope out the potential for further actions to increase the effective use of wood fuel resources. The Forest Business Units are exploring opportunities for development on the national forest estate.**

The Scottish Government has been consulting on how the assets of the national forest estate could make a greater contribution to climate change related economic activity like woodland planting and renewable energy projects<sup>10</sup>.

The **national forest estate** is a huge asset, and has the potential to deliver a wide range of economic benefits for both Forestry Commission Scotland and local micro enterprises in conjunction with its other objectives. These will include renewable energy as mentioned above, appropriate tourism development via a wide range

<sup>9</sup> [www.forestry.gov.uk/aboutfcs](http://www.forestry.gov.uk/aboutfcs)

<sup>10</sup> [www.forestry.gov.uk/consultations](http://www.forestry.gov.uk/consultations)

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of business models, and timber processing opportunities. **We will use Forest District strategic plans to determine how Forest Districts can best increase their contribution to rural business development.**

The marketing potential of **Scottish branded products** offers rural businesses an opportunity to produce high value goods for niche markets rather than trying to compete in the global commodities arena. Such products also help to raise public awareness of the positive benefits which forestry has to offer to society. **Forestry Commission Scotland will explore opportunities to use Scotland the Brand to market forest products.**



**Synergy with other economic development agencies** will deliver best value for Forestry Commission Scotland, and best value for the rural forest industry. The existing links with these organisations need to be strengthened and maintained. The Forest Tourism partnership between Forestry Commission Scotland, Scottish Enterprise, Highlands and Island Enterprise and VisitScotland has been a good example of this. **Both Forestry Commission Scotland and Forest Enterprise Scotland will continue to widen engagement with economic development agencies for co-ordinated action.**

Highlighting the six areas above does not mean that other areas in the sector no longer require support. In the last few years, there have been encouraging signs of progress in the forestry sector, and Forestry Commission Scotland will continue to encourage and support this, for example, through the work of the Forest Industries Advisory Board.

## Monitoring and review

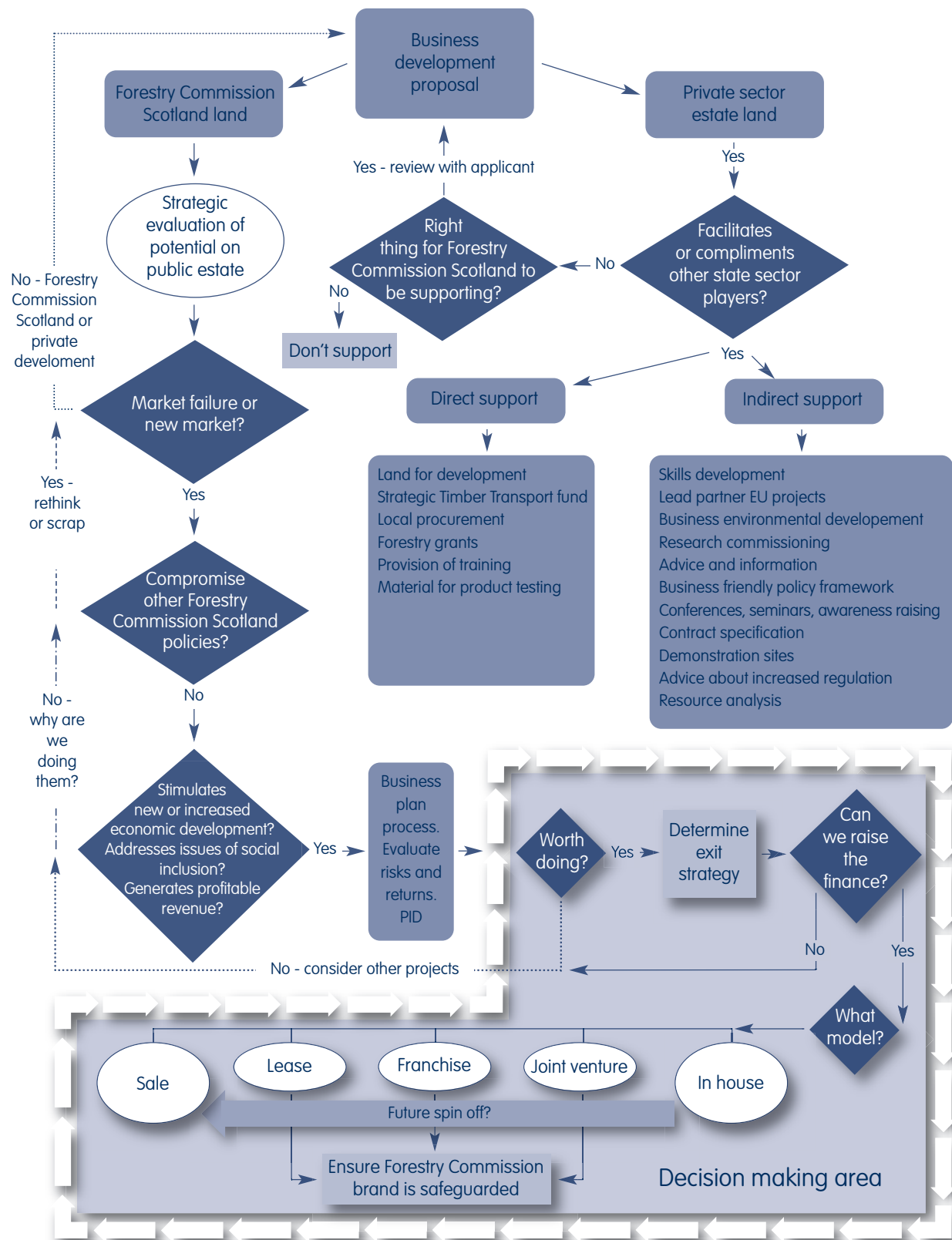
Formal evaluation of projects against their original objectives and business plan needs to happen in a regular and co-ordinated way. A project initiation process within a consistent framework, which allows and encourages innovation, but ensures that resources are used to best effect, will assist the project assessment process. The exact form of this will differ according to the type of intervention. For example, in Forest Districts, the best mechanism for this will be the District's strategic plan, which will ensure that local developments meet wider national objectives. The guiding principles outlined above and the decision tree at Appendix 1 will help to assess all potential projects. This will reduce the incidence of ad hoc developments, and avoid a legacy of maintenance or withdrawal issues. **Forestry Commission Scotland is currently developing a framework for evaluating projects, which will allow a consistent approach to be applied. This will be reviewed in 2010.**

## Equality Impact Assessment

This draft policy has been screened and the conclusion was that it does not require a full Equality Impact Assessment.

# Appendix 1

## Flow chart for considering business development projects on the national forest estate, and for supporting projects on the private forest estate





Forestry Commission Scotland serves as the forestry directorate of the Scottish Government and is responsible to Scottish Ministers.

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