

	Joint meeting of Overview and Scrutiny Committee and Finance and Audit Scrutiny Committee 16 March 2010	Agenda Item No. 5
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Title	Oakley Wood - review of business case
For further information about this report please contact	Rose Winship, 01926 456223 rose.winship@warwickdc.gov.uk
Service Area:	Cultural Services
Wards of the District directly affected	
Is the report private and confidential and not for publication by virtue of a paragraph of schedule 12A of the Local Government Act 1972, following the Local Government (Access to Information) (Variation) Order 2006	No (see section 8.1)
Date and name of meeting when issue was last considered and relevant minute number	Executive Committee, 11 November 2009 Minute 115
Background Papers	

Contrary to the policy framework:	No
Contrary to the budgetary framework:	No
Key Decision?	No
Included within the Forward Plan? (If Yes, include reference number)	No

Officer / Councillor Approval

With regard to officer approval all reports *must* be approved by the report author's relevant director, Finance, Legal Services and the relevant Portfolio Holder(s).

Officer Approval	Date	Name
Relevant Director	17/2/2010	Andrew Jones
Chief Executive	17/2/2010	
CMT	17/2/2010	
Section 151 Officer	17/2/2010	Mike Snow
Legal	26/2/2010	John Gregory
Finance	26/2/2010	Jenny Clayton
Portfolio Holder(s)	26/2/2010	Councillor S Gallagher

Consultation Undertaken

Please insert details of any consultation undertaken with regards to this report

Final Decision?	No
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Suggested next steps (if not final decision please set out below)

1 **SUMMARY**

- 1.1 The report reviews the purchase of Oakley Wood and assesses the differences between the financial case originally made for the purchase and more recent cash flow forecasts contained within the management plan.

2 **RECOMMENDATION(S)**

- 2.1 That members note the accompanying explanation of the process of purchasing Oakley Wood.

3 **REASON(S) FOR THE RECOMMENDATION(S)**

- 3.1 A detailed discussion of the issues surrounding the preparation of each set of reports can be found from section 7 onwards, with an outline of the timeline of the preparation of the 2007 report at section 7.

4 **ALTERNATIVE OPTION(S) CONSIDERED**

- 4.1 Not applicable.

5 **BUDGETARY FRAMEWORK**

- 5.1 This report is a review of past actions and for members' information only. There are no additional impacts upon the budget arising from this report.
- 5.2 Members are reminded of the November 2009 Executive Report which demonstrated that the costs of the management of the wood over the first 5 years can be contained from income generated and within existing budgets. This is attached as Appendix 2 to the report.

6 **POLICY FRAMEWORK**

- 6.1 This report is a review of past actions and has no policy implications

7 **TIMELINE**

- 7.1 Oakley Wood was put on the market in late summer 2007, for sale by private treaty, with offers over £260,000 invited.
- 7.2 The wood had enjoyed permitted public access for some time, and there was considerable concern amongst local residents that new owners may not continue to allow access and that this recreational resource would be lost to them.
- 7.3 Following a request from elected members, initial inquiries into the availability of grant funding to help with the purchase were made by officers at the end of August 2007, but the process went no further at this point.
- 7.4 It became apparent through enquiries received by Planning Services, and contacts with colleagues in other organizations that a number of interested parties were looking at the wood, including a group hoping to use it for war game simulations.
- 7.5 Pressure from residents and Bishops Tachbrook Parish Council built, and at the request of Members, council officers began to investigate further the possibility of purchasing the wood. It was clear that at this point any successful bid for the wood would have to be made swiftly.
- 7.6 The process of putting together a business case was begun around 12 October 2007, with reports circulated to Exec Overview and Scrutiny and Audit and Resources Committees on 16 October 2007. Although some of the content of the

report involved highly technical areas, it was prepared without input from the Council's tree and woodland technical specialists.

- 7.7 A report was taken to Executive on 22 October 2007 (Appendix 1). This report recommended that the Chief Executive and Chief Financial Officer, in consultation with the Leader of the Council, be given delegated powers to purchase the wood at an estimated maximum net cost to the council of £100,000.
- 7.8 The report further recommended that prior to purchase £500 be spent on having the woodland inspected by a forestry consultant and that should the wood be bought a business case be developed for the installation of biomass boilers at a number of council sites.
- 7.9 A consultant inspected the woodland on 25 October 2007 and a report was received from him on 7 November 2007.
- 7.10 An offer was made on 21 November 2007 and the purchase by Warwick District Council completed on 7 February 2008 for £320,000.
- 7.11 Following a major restructure of the former Leisure and Amenities service area, officer responsibility for the newly acquired Oakley Wood changed in April 2008. Responsibility for the wood now fell to Neighbourhood Services and was picked up by the then Strategy Officer (Arboriculture).
- 7.12 Work on preparing a long term management plan for the woodland was begun in November 2008. Acknowledging that the council's expertise in woodland management lies principally in recreation and habitat management, not in economic management of plantations, forestry consultants Lockhart Garratt were commissioned to assist with the preparation of the management plan.
- 7.13 A further restructure in April 2009 saw responsibility for Oakley Wood shift to Cultural Services as the Strategy Officer (Arboriculture) was moved to that service area, with a change of job title to Green Infrastructure Manager.
- 7.14 Work on the management plan continued and a period of public consultation was launched on 14 July 2009.
- 7.15 The consultation deadline was extended twice to accommodate requests from stakeholders, including the Friends of Oakley Wood. A report was taken to Executive on 11 November 2009 recommending approval of the consultation management plan, subject to a number of alterations in the light of the consultation exercise.

8 ORIGINAL CASE FOR PURCHASE

8.1 Confidentiality of the original report to Executive

- 8.1.1 The report to Executive of 22 October 2007 is attached as Appendix 1 to this report.
- 8.1.2 The report was originally restricted as confidential because it contained information that was commercially sensitive in the context of the Council's intention to make an offer for the woodland.
- 8.1.3 As the process of purchasing the wood is now complete this information is no longer considered commercially sensitive.

8.2 **Reasons for the recommendations**

8.2.1 The reasons given for the recommendations of the October 2007 report began by stating that the purpose of purchasing the wood would be to:

- Protect it for future generations
- Secure it as a public open space, conservation and wildlife habitat; and,
- Use it as a biomass fuel source for the council

8.2.2 These reasons were incorporated into the Vision outlined in the current management plan and informed the Management Aims described in that document.

8.2.3 The report identified an aspiration to formally allow public access throughout the woodland and indicated that the Forestry Commission was in accord with these aspirations.

8.2.4 It further argued that there were significant benefits to be accrued through owning a potential source of wood fuel.

8.2.5 The report acknowledged the Council's lack of expertise in forest economics and recommended that a consultant be instructed, at a cost of £500.

8.3 **Budget / business case**

8.3.1 The first table at section 4.2 of the original report outlines anticipated initial investment costs, including the purchase price, together with anticipated 'one off' income.

8.3.2 £85,000 of the costs (barn / hard standing and entrance road) are offset against anticipated income from a partner who would use this additional facility. The main figures of concern are, on the costs side, the purchase price of £260,000 and on the income side the sale of standing timber at £150,000, and grant income for restocking of £47,000.

8.3.3 The figure for the sale of standing timber appears to relate to the estimated total value of standing timber within the woodland.

8.3.4 The restocking grant figure appears to relate to a grant of £1,000 per hectare throughout the 47ha wood, approximately the level of restocking grant available for broad leaf woodlands at the time.

8.3.5 Section 4.5 of the original Executive report further identified potential energy cost savings of £89,000, subject to capital investment in wood burning boilers at a number of sites.

9 **ISSUES WITH THE ORIGINAL BUSINESS CASE**

9.1 **Value of timber**

9.1.1 The original estimate of standing timber value appears to be seriously flawed.

9.1.2 The report produced by the consultant consisted principally of a review of both the state of the market and the grant regime at that time. No detailed mensuration was undertaken, but in estimating standing value an assumption of standing volume of 50 tonnes / acre was made, equating to 124 tonnes / ha.

9.1.3 An 'all through' price of £25/tonne standing was assumed to estimate a standing value of £146,000, which equated closely to the figure of £150,000 given as an estimated value of standing timber in report.

- 9.1.4 A mensuration exercise undertaken by council officers and consultants from Lockhart Garratt in spring 2009 estimated the total volume in the woodland to be around 8,500m³, or around 180m³/ha (1m³ of green timber is close to 1 tonne). This suggests that the original consultant's estimate of volume was low.
- 9.1.5 However, advice from Lockhart Garratt suggests that an 'all through' price for timber at Oakley Wood would be closer to £8/m³. Average prices achieved by the Forestry Commission were £11.71/m³ in 2006/7, £16.36/m³ in 2007/8 and £12.37/m³ in 2008/9. Prices are expected to be lower in Oakley Wood partly because of the size and quality of the produce, and partly because of increased overheads stemming from Warwickshire's isolation from the forestry industry's main bases.
- 9.1.6 Timber prices are highly volatile. At the time of purchasing Oakley Wood prices were higher than they had been for some considerable time, pushed up by Chinese demand. An increasing in interest in wood fuel, driven partly by very high oil and gas prices, was also contributing to pushing up timber prices, particularly for lower quality timber. Never the less, there does not appear to be any sound basis for assuming that an 'all through' price of £25/tonne could be achieved.
- 9.1.7 It appears, therefore, that the value of standing timber in the woodland was considerably overestimated. Furthermore, the recession has pushed down the price of timber once more. The current best estimate, at today's prices, is £68,000.

9.2 **'One off income'**

- 9.2.1 The first table at section 4.2 lists 'one off income', set against the initial costs of acquisition. This includes £150,000 for the sale of standing timber, and £47,000 for restocking grant.
- 9.2.2 These figures do not, in reality, represent 'one off income'. They represent potential long term income arising from management operations over several decades. Due to the urgency to prepare the report and approval to make an offer to protect the future of the wood, this fact was inadequately communicated.
- 9.2.3 To achieve these figures 'one-off' would require clear felling the woodland and replanting in one go. This would clearly not have been consistent with other aims of owning the woodland, such as protecting it for future generations and securing it as a public recreational resource. It would also be unlikely to receive the necessary permissions from the Forestry Commission.
- 9.2.4 Furthermore, this approach would be economically inadvisable. The timber within the woodland is not yet at the point of maximum value for final harvesting. A more considered long term approach to management will increase returns.

9.3 **Cost of the woodland**

- 9.3.1 The original case as outlined in the Executive report assumed that the wood could be purchased at the guide price of £260,000
- 9.3.2 In reality, because of competing interests the final price paid was £320,000

9.4 **Fuel wood benefits**

- 9.4.1 The assumptions in respect of energy savings are now found to be flawed.
- 9.4.2 Section 2.8 of the report outlined the Capital Costs of converting the Biomass Boilers and assumed that all of the existing costs of gas at these five sites to be

£89,000. Costs of producing wood chip for the boilers were referred to in the report, but these were not offset against the savings.

9.4.3 There is also no account of the volume of timber that could be sustainably harvested from Oakley Wood. In reality, a maximum of around 300 tonnes pa could be harvested from Oakley Wood. Even if all of this went to the fuel market (which would be economically inadvisable) it would represent only 24% of the fuel needs of the five sites identified.

10 THE CURRENT MANAGEMENT PLAN

10.1 Preparation

10.1.1 Work on the current management plan was begun in November 2008. Forestry consultants Lockhart Garratt were commissioned to assist with baseline studies and prepare a consultation draft, which was issued in July 2009.

10.1.2 As well as an ecological survey, a full assessment of the volume and nature of timber within the woodland was undertaken using standard Forestry Commission methodology.

10.1.3 The cash flow forecasts contained within the plan and the Executive report of November 2009 are the result of a significant amount of research and consideration – in contrast to the original report which was, of necessity, prepared in four days.

10.2 Economic changes

10.2.1 Figures also reflect significant changes in the economic climate. The price of timber has fallen again as a result of the economic downturn, although it remains generally higher than it has for some decades. Income figures are based on a more realistic estimate of the price that could be obtained – around £8/m³

10.2.2 The approach to management is more considered and sensitive, intended to be consistent with the original stated reasons for purchase:

- Protect it for future generations
- Secure it as a public open space, conservation and wildlife habitat; and,
- Use it as a biomass fuel source for the council

10.2.3 The plan recognizes that forestry is a long term investment with returns realised over a period of decades.

10.3 Woodfuel

10.3.1 In the intervening period there have been very significant changes in the prices of fuel, with the cost of gas and oil falling dramatically.

10.3.2 As a result, the council has reconsidered the business benefits of converting sites to using woodfuel and the programme for this is currently on hold.

10.3.3 Woodfuel continues to be an important market for lower quality timber and options for selling produce into this market are being investigated further. However, it is not felt viable for the council to process woodland produce into woodchip itself.

11 BENEFITS OF PURCHASING OAKLEY WOOD

11.1 Although there were flaws in the financial case presented for the purchase of Oakley Wood, there remain good reasons for having done so.

- 11.2 The three bullet points given in section 2.1.1 of the original report continue to form a good basis for the purchase.
- 11.3 The Green Space Audit has identified natural green space as being a resource that the District is short of. Whilst we are generally well provided with more formal green space, the District falls short of meeting Natural England's 'ANGSt' standards for access to natural green space.
- 11.4 The purchase of Oakley Wood has had a positive impact in addressing this shortage. In particular, the whole of the settlement of Bishops Tachbrook now meets the standard to have at least one 20ha accessible natural space within 2km, whilst accessibility for Whitnash and south Leamington is improved.
- 11.5 Woodland is in general a low input recreational resource. Routine maintenance of St Nicholas Park costs £3095/ha/year, compared to around £195/ha/year for Crackley Wood.
- 11.6 In addition to requiring low inputs, woodland, unlike most other forms of recreational green space, can produce some income. Whilst this point was overstated in the original report it is nevertheless the case that some revenue from timber sales can be realised throughout the life of a woodland.
- 11.7 Given these two facts, woodland represents an extremely cost effective way of providing natural green space.
- 11.8 Good management of woodland can significantly increase its asset value. Oakley Wood has been undermanaged in the past and there are opportunities to improve management, thereby increasing the quality and size of timber produce available.
- 11.9 The purchase of Oakley Wood by the Council has ensured that it continues to be used in a way which is consistent with its position surrounding the Mid-Warwickshire Crematorium and woodland burial ground on three sides. There were significant and real concerns that the woodland could be used for war gaming or other purposes that would have been in conflict with these neighbouring uses.
- 11.10 Although a fall in oil prices has made conversion to wood fuel less financially attractive than it appeared three years ago, there are significant other benefits to using wood fuel.
- 11.11 Sustainably sourced wood is near carbon-neutral. A significant part of both the cost and the carbon footprint of wood fuel lies in transportation. It is therefore important that it is produced close to where it is used.
- 11.12 Although there is believed to be considerable potential to produce wood fuel in South Warwickshire, the supply chain infrastructure is poorly developed. There is a classic 'chicken and egg' situation, with potential suppliers being unwilling to invest in the infrastructure whilst the market is limited, whilst potential users are unwilling to switch to wood fuel whilst the supply is not secure.
- 11.13 Warwick District Council have already helped to kick start a demand for wood fuel locally through the installation of wood fuelled boilers. The purchase of Oakley Wood helps to secure supply and allows us to encourage the development of a supply infrastructure from the perspective of a timber producer as well as a fuel user.

- 11.14 The benefits of this in terms of climate change mitigation and adaptation are clear. There are also important benefits in terms of encouraging the rural economy. The increased interest in wood fuel is already making active woodland management more economically viable. There is potential for job creation in the woodland management and wood processing sectors within the sub-region.
- 11.15 There are also biodiversity benefits to the active woodland management encouraged by development of a wood fuel market, in addition to the significant biodiversity benefits associated with the Council's own management at Oakley Wood. The purchase is therefore consistent with the Council's obligations to consider biodiversity in all its actions.