

1 October 2015

Forest Holidays Governance

1. Purpose

To update Commissioners on the following matters:

- a) The creation of a Cross Border, Executive level, Governance Group to deal with Forest Holidays issues.
- b) Distribution of a new Signposting Document prepared by Eversheds detailing the main corporate structure of Forest Holidays, the current shareholding and the mechanisms.
- c) Statement of Equity value in each Country and proposal for the creation of a Deed of Trust between the Forestry Commissioners, FE(E), FE(S) and NRW to ensure clear process during Devolution including an internal reallocation of the FC investment in Forest Holidays
- d) Appointment of new Forestry Commission nominated Forest Holidays Director.
- e) Country Updates.

2. Background/Introduction

Forest Holidays was restructured in September 2012 which resulted in the creation of two new businesses. These are Forest Holidays (FH) LLP and Camping in the Forest (CiTF) LLP.

In 2014 Internal Audit reviewed the Governance Arrangements for Forest Holidays. The summary of their finding is included in Annex 1.

2015 has seen increasing site development activity in Wales and Scotland following Planning Challenges in England and a refinement of the Site Development model by Forest Holidays. This is taking place in parallel with the further of devolution of Forestry Matters prioritising the need to ensure clarity on how the Commissioners equity interests in Forest Holidays will be transferred as part of any Devolution Agreement or indeed the creation of a new Public Forest Estate Management Organisation in England.

Forest Holidays Governance

Due to the comprehensive legal documentation package that surrounds Forest Holidays the executive team have been working on a Signposting Document prepared by Eversheds of the key Corporate Structure, supporting Documents and current Shareholding.

3. Details

a) Governance Group

This has now been constituted to co-ordinate cross border activity. This has met on two occasions and is responsible for the majority of content in this paper. The core Group consists of Wilma Harper, Ian Gambles, Simon Hodgson, Simon Hodge and Mark Street providing technical support. NRW to be invited as and when required.

b) Signposting Document

This document is included with the paper at Annex 2. It sets out a summary of the Shareholding, mechanisms for the sale of those shares (Drag and Tag) and the main Corporate Structure. It is provided for information and to act as a paper based 'Memory Bank' as those involved with the 2012 agreements leave the Forestry Commission.

c) Inter Country Equity Values and Deed of Trust

(i) Internal allocation of FC's investment in FH LLP

England, Scotland and Wales (NRW) agreed to apportion the overall FC stake in FH in accordance with the site valuations for each country, as determined by independent Chartered Surveyors. The internal allocation is updated each year following receipt of the annual independent valuation report from the Chartered Surveyors and the resulting investment values are recorded in the FE Scotland, FE England and NRW annual accounts.

The table below demonstrates the values and internal FC investment percentages on a country basis since September 2012 when the new arrangements came into effect.

	20 Sept 2012		31 Mar 2013		31 Mar 2014		31 Mar 2015	
	£	%	£	%	£	%	£	%
England	4,096,000	83%	4,796,000	83%	6,140,000	86%	6,240,000	87%
Scotland	600,000	12%	680,000	12%	680,000	10%	680,000	10%
Wales	260,000	5%	260,000	5%	260,000	4%	220,000	3%
Total	4,956,000	100%	5,736,000	100%	7,080,000	100%	7,140,000	100%

Forest Holidays Governance

The main reason for the percentage and valuation movements is due to the creation of new sites and growth of the business, predominantly in England since September 2012.

It should be noted that the overall FC equity share in Forest Holidays may fluctuate from the original 20% figure at the time of the 2012 subscription due to the issuing of new shares approved by the Forest Holidays Board. This does not automatically affect the overall value of the Commissioner's holding (note that the LDC equity % also reduces) and does not affect voting rights which remain at 20%. Reference to the Signposting Document para 2.2 gives further explanation.

Should the company be wound up the distribution of the net value is set in the Articles of the Company as per para 4 in the Signposting Document. This protects the core equity value (assuming the net assets are sufficient) and provides for a clear hierarchy of subsequent sharing of proceeds.

The Forestry Commission has co-invested in site development since 2012. This was a condition of the Shareholder and Investment Agreement in order for the Forestry Commission to maintain its shareholding and the conditions required have been met.

The table below sets out the dates of investment and the current value should Forest Holidays wish to repay the debt to the FC.

Description / Country	Investment	Value (£)	Interest (£)	Total (£)
	Date	31-Mar-15	31-Mar-15	31-Mar-15
Working capital (England)	14-Dec-12	45,139	11,597	56,736
Blackwood (England)	14-Jan-13	621,535	153,089	774,624
Ardgarten (Scotland)	17-Jan-13	204,746	50,221	254,967
Cropton (England)	11-Apr-13	237,726	51,606	289,332
Delamere (England)	21-Oct-13	633,761	98,008	731,769
Thorpe (England)	04-Nov-13	2,232	335	2,567
		<u>1,745,139</u>	<u>364,856</u>	<u>2,109,995</u>

(ii) Deed of Trust

As well as following up a recommendation from the Internal Audit report there is now a time imperative to agree how this three country split might be treated during further Devolution or legislation to create a new Public Forest Estate Management Organisation.

Forest Holidays Governance

In addition Spending Review targets may create a need for an individual country to dispose of their share of the Equity in return for cash. Such an action would require the approval of the others as per the Signposting Document para 9.2.

It is proposed that the Executive Governance Group will now proceed to complete an agreement to set out the approval process, technical mechanism and financial outcomes required to accommodate these changes and present to the Commissioners for later approval.

The internal reallocation of the Core FC Equity holding has been discussed in principle with FE England's external auditors (National Audit Office and Ernst and Young), with no immediate concerns raised by either audit body.

In addition it will be necessary to understand the implications on the corporate Forest Holidays documents especially the 2012 Framework Agreement which may require amendment to become country specific especially in the Site Approval process.

d) Appointment of new Forest Holidays Director.

Interviews were held on the 18th September for the new Director. There was a very strong and competent field of applicants.

The Executive recommended Mr Peter Nixon as the new Forestry Commission appointed Director.

e) Country Updates

(i) England

A new internal site selection and approval process, EMGN4a was tabled at the ENC Meeting on the 16th September. This improves on the previous EMGN4 which covered all non-forestry developments some of which required the consent of the English Minister which in the case of Recreation type developments in England is not the case following the Countryside Act 1968. The final version will be agreed via correspondence.

FEE have allocated extra resource to managing Site Selection and approval both to improve internal procedures and support Forest Holidays in the delivery of their investment on the PFE. The relevant extra costs of this will be recovered from Forest Holidays as per the framework agreement and to support Recommendation 4 in the Internal Audit Report.

Forest Holidays Governance

Once the new Site Selection/EMGN process is signed off by the ENC attention will be given to a review of the 2012 Framework Agreement including the ground rent as per Recommendation 1 and 5 in the Internal Audit Report. The outcome of this review will be shared with the Governance Group and the Commissioners at their next meeting and an update will be provided to Internal Audit.

(ii) Scotland

FES are engaging with Scottish Government (SG) in relation to the future arrangement for forestry in Scotland. As part of this engagement process FES is drafting a briefing paper about the current and potential future position of the joint venture agreement with Forest Holidays and Camping in the Forest.

At present FES is conducting a review of various scenarios and options to realise the FES equity share with both Forest Holidays and Camping in the Forest. Realising the share would simplify arrangements in Scotland, allowing FES to focus on a good landlord/tenant relationship and release some resource at a time of financial pressure on FES.

4. Resource Implications

Nil. Each Country is allocating existing resource.

5. Risk Assessment

Not required.

6. Communications Issues

It is recommended a combined press release with Forest Holidays is agreed to confirm the new Directors appointment.

7. Implementation and Evaluation Proposals

None.

8. Recommendation

Forest Holidays Governance

- That the Commissioners note the following:
 - The Creation of the Governance Group
 - The Signposting Document including the current Equity split, valuation and investment record.
 - The Country Updates.
 - The appointment of the new Forestry Commission nominated Forest Holidays Director
- That the Commissioners Direct the Governance Group to prepare a paper and draft Deed of Trust detailing how the core Equity in Forest Holidays could be re-distributed between the Countries the impact of devolution on the 2012 Framework Agreement and what timescales would be most effective.

Ian Gambles
Director, Forestry Commission England

23 September 2015