



Forestry and Land Scotland (FLS) Strategic Advisory Board

Date of Meeting: 05 September 2023

Location: Apex House, Edinburgh and MS Teams

Present:

- Simon Hodgson, Chief Executive (Chair)
- Michael Hymers, Director of Corporate Services
- John Mair, Director of Commercial Development
- Graeme Hutton, Director of Net Zero
- Graeme Prest, Director of Land Management and Regions
- Donna Mortimer, Chief Financial Officer
- Mark Pountain, Non-Executive Advisor
- Jo O'Hara, Non-Executive Advisor
- Clea Warner, Non-Executive Advisor
- Sophia Christopoulos, Secretariat Assistant (Minutes)

Apologies:

- Rhondda Salmond, Change Manager (Secretariat)
- Therese O'Donnell, Non-Executive Advisor

1. Welcome and Introductions

Simon Hodgson welcomed everyone to the meeting and outlined the agenda.

2. Matters Arising

Minutes and Action Points

It was agreed that the minutes for the last meeting held on 30th May 2023 were a true and accurate reflection.

Action Point Update:

- **AP3/23:** Update – an in person meeting will be held to progress this action point.

Conflicts of Interest

There were no conflicts of interest declared.

3. CEO/Organisational Update

Scottish Government Political / Operating Environment

Simon Hodgson gave an overview of the current operating context for the Strategy Advisory Board, outlining the economic environment, political conditions and associated impact on FLS. He reflected that economic growth in the UK is slightly improved, though not significant.

Demand for timber is expected to remain constant throughout the winter linked to the US housing market, which is experiencing inflation and high prices. Within the UK, inflation and interest rates also remain high and this is unlikely to change. The exchange rates are higher in the UK than in the Eurozone, with import prices down for timber. Work also continues to consider climate impacts, both now and in future years.

Simon discussed the SG budget challenge and the associated financial constraints and uncertainty. Upcoming elections in Westminster and Holyrood could further impact this, with potential changes to commitments made by SG.

He reflected on the outlook and prospects for FLS, highlighting the challenges that the organisation could face going forward, including affecting our financial sustainability and resilience. Simon noted the uniqueness of FLS, in that it is a public sector agency and commercial enterprise subject to cyclical markets, which makes negotiating funding and financial planning complex.

4. Financial Update and Scenario Planning

Donna Mortimer provided an update in her presentation on Period 4 (P4), touching on Quarter 1 (Q1) outturn, P4 work and outturn, Business Planning for Financial Year (FY) 24/25, and continued risks.

She explained the current budget position and ongoing impacts that were being used to inform scenario planning, including enabling organisational resilience. This has included bringing forward an additional timber spot sale in July, which was very successful, and the current aim for the timber forecast is £88 million. There is a further spot sale in September to assist in achieving the £88 million, and this has been incorporated into the Q1 forecast and P4.

The mandate at P4 is to validate income, remove additional expenditure added in Q1, maintain focus on mandated programmes, and to validate the reserves position. The Chief Executive has asked the organisation to look within P4 to secure funding in the region of £15 to £20 million to support Business Planning in FY 24/25. This is to cushion anticipated deficits of £30 million next financial year and protect reserves.

Donna presented a variety of scenarios, anticipating known and potential factors including deficits and reduction in funding. She anticipates that the outcome will be a mixture of scenarios; drawing down £6 million of the ASL this year, and £10 million next financial year. Regardless, she explained that further work is needed to ensure financial stability. She concluded the session by outlining the continued risks affecting FLS's financial situation. Further work is planned by the agency to keep this information under review and progress.

Michael Hymers indicated that the annual audit performed by external auditors will not be fully complete in time for the Audit and Risk Committee (ARC) meeting in October, with the possibility

that the meeting may need to be rescheduled. In particular, the Land Valuation elements of the report are delayed.

Mark Pountain, in his role of Chair of the ARC suggested that they progress with the Annual Report and Accounts, finalising the biological assets aspect later, as they are legally obliged to adhere to SG's timeframe. Donna added that she is having conversations with the external auditor and will confirm the position as soon as possible.

Jo O'Hara queried whether or not any issues relating to financial sustainability could impact on FLS "going concern" status which is required for the Annual Report and Accounts. Simon advised that FLS has not set financial targets yet; this will be taken forward through the annual Business Planning process that had just commenced for FY 24/25. Supporting communications on these aspects have gone out to staff to keep them informed. Jo also asked if there was anything preventing FLS from being more commercially perspicacious, leading to a wider discussion on the role of FLS, namely the conflict between its role as a government agency and as a commercial entity.

AP4/23: Chief Financial Officer to clarify roles and responsibility of Non-Executives relating to "Going Concern" status.

5. FLS Business Review

John Mair and Graeme Prest gave a presentation on the Business Review, outlining the following areas as priorities in the Business Review process; Sustainable Forest Management & Additional Activities, Resourcing, Key Performance Indicators (KPIs), Planning, Benchmarking, Commercial Opportunities and Civils.

Staff communication has also been prioritised, with activities discussed with the Trade Union representatives.

John Mair elaborated on these priorities, separating them into 'macro' and 'micro' business operations. Macro donates more to the future state of the organisation, for example the resourcing required, whereas micro are more day to day mandatory operations, such as civil engineering. John commented on the overlap of these micro and macro operations, explaining the roles benchmarking, planning and KPIs will play in shaping outcomes.

Mark Pountain stressed the importance of timing in all of this. Jo O'Hara also added that breaking down activities by geography, instead of function, may provide a more realistic picture of the business as well as a less restricted view. John and Graeme agreed to take these views into consideration.

Graeme described how the Business Review will assess resourcing to understand if staff are allocated correctly and aligned to priority activities. This would inform any potential

redeployment of staff and help align activity levels with staff numbers, subject to appropriate consultation. Comparing indirect staffing levels within FLS across third parties will also be conducted to evaluate whether there are opportunities to utilise external expertise instead of duplicating inhouse.

Mark Pountain observed that office buildings and related overheads are likely to contribute significantly to expenditure, and asked whether this could be reduced. Graeme responded that resourcing needs to be assessed first before establishing building requirements. The sequencing of the review is important to ensure that related activities and actions are fully understood before being taken forward.

Graeme Prest discussed the commercial opportunities related to timber harvesting and sales. This includes factors such as recognising barriers to sales and managing stakeholder expectations.

Jo suggested exploring the potential of higher value markets within the bio-economy and recommended ensuring good links with other agencies, including Scottish Forestry. Other commercial opportunities were also touched upon, such as venison and renewables income, and the respective ways these can be modernised and become as market-facing as possible

Each priority will undergo an initial review, with findings used to inform proposals and implement changes. The timescales vary depending on the priority listed, however John Mair stated that indicative timelines aim to complete this review in its entirety by the end of Summer 2024.

Jo acknowledged that the risk environment in which the agency is operating has significantly changed, with strategic risks escalated since the last ARC meeting. She asked that there be time allotted in the agenda to discuss at the next ARC meeting.

AP5/23: Discussion and review of financial sustainability corporate risk to be tabled for next ARC meeting.

Similarly, Mark asked that the Non-Executives be kept up to date with this Business Review at each board meeting going forward. He also asked how they will adhere to the timelines described, to which Graeme responded that there will be regular updates, and extensive communication. John added that if additional internal or external help is needed to facilitate the project, that this will be allocated. He noted that the review is still at the information-gathering stage currently. Mark expressed support and encouragement, though raised concerns about time constraints and the need to be action-focused.

6. AOB

There were no areas of AOB raised.

Date of Next Meeting: 5th December 2023