

TRANSFORMATION OF THE FORESTRY DEPARTMENT

MEDIUM TERM FINANCING PLAN



January 2008

**FORESTRY DEPARTMENT
MEDIUM TERM FINANCING PLAN**

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1 Introduction

1.1 What this Plan Contains

This Medium Term Financing Plan (MTFP) contains more detailed estimates that summarise, in financial terms, the Forestry Department's Modernisation Plan leading to its transformation to a performance-based institution within the portfolio of the Ministry of Agriculture (MoA). The MTFP covers a three-year period and includes:

- The funding that will be needed to maintain services at their current level during the modernisation period
- The capital and recurrent expenditures to be financed, including development costs and investments to improve the Forestry Department's resource base and allow a successful transition to an Executive Agency

1.2 Approach

The MTFP is written as an adjunct to the Modernisation Plan. The detail that explains the development and implementation of the Forestry Department's strategies is to be found in the Modernisation Plan. The Forest Act is being amended and whilst the full financial implications are not yet known the MTFP has attempted to capture, as much as possible, the relevant resource needs as stipulated in the draft amendments to the Forest Act.

In the overall preparation of the Scheme of Management documentation, information has been drawn from numerous bodies of work conducted and also from in-house and sector-wide consultations. The strategic review done by Pierre LeBel in February 2007 also provides significant input into the MTFP.

The Modernisation Plan recognises that further work will have to be undertaken by the CEO and the Senior Management Team in the transition year to confirm further the details of the plan and hence the precise costs involved. They will, consequently, need to revisit this MTFP in the transition year.

1.3 Structure of this Plan

After this brief introduction, the plan summarises the key financial implications of implementing the Forestry Department's Modernisation Plan, after quantifying the baseline financial requirement to provide a continuing service in the organisation's subject areas. Recognising the GoJ's overall basis of cash accounting, actual outlays for each of the years are offset by corresponding revenue figures to arrive at the financing requirements.

Notes:

1. *All figures in this document are shown in Jamaican Dollars, unless otherwise stated. Where conversion from a foreign currency is needed, the following exchange rates have been applied:*
 - *US\$1 = J\$71.00*
2. *Actual figures and Approved Estimates have been extracted from reports supplied by the Forestry Department's Finance and Accounts Unit.*
3. *The projected figures in this document are primarily estimates and as such, not an indication of actual out-turns.*
4. *The Implementation Plan contained in the Modernisation Plan assumes that Transition Agency status will be conferred in FY 2008/2009. This will be regarded as Year 1 for the purposes of the financial projections contained in this report.*

2 Core Funding

2.1 Introduction

This section sets out the current financial arrangements and then quantifies the baseline funding that is required to operate the Forestry Department in its present form. These amounts represent what is required for the provision of services in the subject areas of the Forestry Department before implementing the Modernisation Plan.

2.2 Current Financial Arrangements

As a Department reporting to the Ministry of Agriculture, the Forestry Department's financial affairs are overseen by the Ministry and, hence, the Permanent Secretary is the entity's Accounting Officer. The Forestry Department carries out its own budgeting, accounting and financial reporting activities but capital funding is handled through the Ministry.

The Forestry Department has relatively modest income all of which is paid into the Consolidated Fund.

Over the past three fiscal years recurrent funding for the Forestry Department has been at the following level:

J\$, 000

Fiscal Year	Recurrent	Capital A	Capital B	Income	Gross Funding
2005 – 06 Expenditure	106334	-	6073	1402	112407
2006 – 07 Expenditure	151724	-	764	5904	152488
2007-08 revised Estimate	185098	5000	-	2365	190098

2.3 Core Funding Requirement (Recurrent)

For the purposes of this financing plan, the 2008/09 Estimate has defined the Core Funding for the Forestry Department. It is assumed that the operations of the Forestry Department at the current level will form the baseline, and for the three-year time horizon of this plan the following adjustments will be made to Core Funding:

- The full employment of staff will be completed over the first two years; with 87% of the proposed staff in place in the interim period and the other 13% on board in the second year. This is based on prioritising job functions in tandem with the phased operation of the Forestry Department as an executive agency. As a result of the additional staff in the second year 14% increase will be applied to compensation and 11% applied to travel and subsistence, and are held constant for the third year.
- It is anticipated that any negotiated “across the board” changes to pay scales implemented by the GoJ would be reflected in the budgets of the Forestry Department in the relevant years hence no adjustment will be included for pay increases.
- No adjustment will be made to Travelling and Subsistence which is a negotiated figure changed globally from time to time by the GoJ. As with changes to pay scales, the necessary adjustments would be made on the effective date.
- Other (non-staff) costs will be inflated by 10% per annum.
- Purchase of other equipment is expected to fall significantly in 2009-10 relative to the transition year. The adjustment is 25% over base year (2007-08) due to larger scale of operations and then held constant for 2010-11.

On this basis, the Core Funding requirement across the three years is:

J\$, 000

Item	2007-08	Core Funding		
		Interim Year	2009 -10	2010 – 11
Staff compensation	110195	229912	265581	265581
Travel and Subsistence	29381	91710	103486	103486
Property Rental	210	204	224	247
Utilities	6002	7352	8087	8896
Purchase of goods and services	31357	67227	73949	81344
Purchase of other equipment	7953	45998	9941	9941
Total	185098	442403	461268	469495

2.4 Financial Implications of the Modernisation Plan

In order to move beyond this baseline, the main activities proposed for the implementation of the Modernisation Plan have financial implications, which will entail expenditures that fall into four categories, and they may be defined as follows.

- **Capital**, being the one-time cost of physical plant, equipment and technology required to support additional functions and enhanced business processes;
- **Technical Assistance**, being the one-time cost of specialist support for the design and implementation of additional functions and enhanced business processes;
- **Implementation**, being the one-time cost of additional administrative overheads that will be incurred in supporting the implementation effort; and
- **Recurrent**, being additional ongoing operational costs that will be incurred due to the implementation of additional functions.

The remaining sections of the Medium Term Financing Plan review the mechanisms for revenue generation and present an analysis of the cost of implementing these measures.

3 Revenue Generation

3.1 Current Revenue Items

The following list of revenue items was provided by Forestry Department. It sets out the various revenue streams and assesses the annual income.

Forestry Department's Revenue Streams and Estimated Annual Income 2008 - 2009

J\$, 000

Activity	Annual Income
Recreational – Gourie	120
Timber Sales	2,000
Seedling Sales	800
GIS and Biophysical Services	200
Miscellaneous	200
Total	3320

The Forestry Department, as an executive agency, project that it will generate additional revenues from two new sources; these are:-

1. Recreational activities at the Gourie Forest reserve in Manchester; and

2. Geographic Information System (GIS) & Biophysical Services.

On receiving EA status, all revenues will fall to the account of the Forestry Department as Appropriations-in-Aid, in accordance with the provisions of the Executive Agencies Act and the Financial Instructions to Executive Agencies (FIEA). The income will be retained by the Department to supplement the operational funding and contribute to its modernisation and future development costs. Accordingly, one of the Forestry Department's challenges will be to optimise revenues, within the current fee and user charge structure, on attaining EA status. For the purposes of the MTFP it is assumed that income will grow at 10% per annum.

3.2 **Doing Business as a Public Sector Entity**

The primary objective of a Public Sector Entity (PSE) is to undertake some aspect of the Government's work, or to provide services to the citizens of Jamaica. In this regard, the future Forestry Department fits in with this concept in that it will be the vehicle by which the Government of Jamaica will regulate and deliver services in the subject areas of Forest Management.

As an income generating entity, the quantification of these services and the revenues to be gained from so doing should be set out in the Business Plan. While the management team of the future Forestry Department has the mandate to optimise revenues, changes to the basis of charging or fee rates will remain the subject of overall government policy. The parameters for the management of fee structures are set out in the Framework Document, which guides the working relationship between the Executive Agency and its Portfolio Minister, who would be the final arbiter of the fee and charging structure.

3.3 **Fee and Charges Setting**

A significant amount of work has to be undertaken on fee setting in the Forestry Department. Until the value of assets is known only a broad based approach can be taken to assess whether the current level of charges recovers the costs of the services provided.

A costing model will need to be developed which apportions budgets to the services provided (including staff compensation and capital depreciation), forecasts the volumes involved and hence derives the unit cost of the service. Necessarily any charges levied will need to reflect market conditions and social policy priorities of the Government of Jamaica.

It is recommended that the holder of the post of Director, Corporate Services, that has been included in the proposed organisational structure of the Forestry Department, be responsible for undertaking a review of current fees and charges and drawing up a revenue plan. This falls directly within the context of the business planning and management role that is envisaged for this position.

4 Costing of Modernisation Initiatives

4.1 Cost Identification

The funding requirements for the components of the modernisation programme have cost implications. The table below analyses the financial implications within the categories of cost put forward above.

Implementation Activity	Financial Implication(s)
Recruit Senior Management Team	Implementation – Recruitment cost Recurrent - Additional staff cost and overheads
Recruit other staff and Managers	Implementation – Recruitment cost Recurrent - Additional staff cost and overheads
Implement Communications Strategy	Implementation – Communications programme overheads
Launch Forestry Department	Implementation – Launch programme overheads Implementation – Cost of stationery, forms, signs, etc.
Implement Key Agency Functions	Capital – Acquiring business systems Technical Assistance - Training and support for establishment of business processes Implementation – Cost of peripherals, delivery, etc... Recurrent – Line lease costs etc...

The remaining sub-sections outline the key assumptions in reaching a broad estimate of the costs and show the financial impact over the three-year time horizon of this plan.

4.2 Capital Costs

The upgrade of management systems and facilities will require a considerable investment during the modernisation programme. These costs are estimated as follows:

J\$, 000

Activity	Assumptions/Rationale	Cost
Furnishing for Training facility	Estimate. The rebuilding of the facility is now in progress and the furnishing will ensure that the facility can be used.	2000
Furniture for additional staff to be employed	Additional furniture required for additional staff to be employed.	2685

Activity	Assumptions/Rationale	Cost
Expansion of office facilities to house additional staff	Expansion necessary due to projected increase in staff complement. Estimated required space is 1800 sq. ft @ \$6000 per sq. ft.	10800
Upgrade all four nurseries inclusive of irrigation systems, infrastructure and equipment to improve seed collections	Nurseries support service delivery in other areas of forest management. Seedlings are produced at these nurseries and the majority of seedlings produced are distributed to farmers to support protection of the forest cover through private planting, reforestation programme and corporate partnerships. In addition, annual income from seedling sales is projected to be \$800,000.	11000
IT network and packages	This is to enable the modernised entity to implement their corporate services structure with the necessary management systems and improve service offering in real-time data management through GIS/biophysical services. GIS/biophysical is projected to also generate revenues of \$200,000 p.a.	21000
Purchase of additional motor cycles to improve forest coverage	Estimation is that each of 4 sub-zones will need 7 motorcycles. Cost per motorcycle is estimated at \$100,000. There are 7 motorcycles currently but these need to be replaced.	2800
Repairs to Roads and Trails	Rehabilitation of the approximately 110km of roads and trails is required for motor vehicles/cycles to have easy and quick access, in the maintenance of all forest management activities, development and harvesting. This will also facilitate the completion of the Biophysical Inventory for the Wag Water Watershed and reduce the costly wear and tear on motor vehicle/cycles.	8900
Total		59185

Summary of Projected Capital Cost

Item	Projected Capital Cost		
	2008-09	2009-10	2010-11
Furnishing for Training facility	2000	0	0
Furniture for additional staff to be employed	895	895	895
Expansion of office facilities to house additional staff	10800	0	0
Update all four nurseries (2 in 2008-09 and 1 in each subsequent year)	5500	2750	2750
IT Network and packages (see IT needs assessment worksheet)	13000	8000	0
Purchase of motor cycles (14 in 1 st year, 8 in 2 nd year and 6 in 3 rd year).	1400	800	600
Repairs to Roads and Trails	5340	1780	1780
Total	38935	14225	6025

4.3 Technical Assistance

The modernisation process will require technical support from both the Ministry of Agriculture and the Cabinet Office, and from external specialists. Direct budgetary support will be needed to finance the external consultancies, an estimate of which is below. It is envisaged that the Performance Management system will be implemented in 2009/10 and that 20 days of agency development support will be needed in the first year.

\$, 000

Activity	Assumptions/Rationale	Cost
Implement IT Network	12 days consultancy support	960
Technical assistance to critical IT scoping and implementations - Financial (8), GIS (6), HR (6) and Registry/Library (4)	24 days consultancy support	1920
Implement PI System	10 days consultancy support	800
Agency Development	30 days consultancy support	2400
Tropical forestry management	40 days consultancy support	3200
Nursery management	15 days local consultancy support	1200
Development of research programme	30 days consultancy support	2400
Develop Forestry training programme	20 days consultancy support	1600
Total		14480

4.4 Implementation Costs

Preliminary estimates of costs, all to be expended in the interim year, are shown below:

J\$, 000

Activity	Assumption	Cost
Recruit Senior Managers	4 Adverts @ J\$50,000	200
Recruit other managers and staff	10 Adverts @ J\$50,000	500
Other recruitment costs	Estimate	500
Communications programme	Estimate	500
Agency launch programme	Estimate	750
Stationery, etc	Estimate	300
Total		2750

4.5 Recurrent Costs

The modernisation process is predicated on the strengthening of the Forestry Department to allow it to yield improved performance in terms of the quality and volume of work done and to broaden the scope of the organisation to fully address its statutory mandate. It follows, therefore, that higher levels of activity will attract increased direct overheads that will be reflected in the projected recurrent expenditure of the agency.

Key assumptions for the projections may be stated as follows:

- Compensation of Employees:
 - Costed on the basis of the current salary structures. They represent the mid-point in the scales and are adjusted by 2% per annum to cover normal pay adjustments. No provision has been made for pay awards.
 - Employers' contributions are computed on the basis of a flat NIS contribution, plus 9% of taxable pay to cover the other applicable payments.
 - No allowance for performance-related pay has been made.
- Travel and Subsistence:
 - No annual adjustment will be made to Travelling and Subsistence, which is a negotiated figure, changed globally from time to time by the GoJ.
- Non-Staff Costs:
 - The projections for these are estimated with reference to the current budget allocations for the Forestry Department.
 - Other (non-staff) costs are inflated by 10% per annum.

Summary of Projected Recurrent Cost

Item	2007-08	Core Funding		
		Interim Year	2009 -10	2010 – 11
Staff compensation	110195	229912	265581	265581
Travel and Subsistence	29381	91710	103486	103486
Property Rental	210	204	224	247
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Total	185098	442403	461268	469495

J\$,000

Note that the projections have been adjusted to reflect the timing of staff recruitment that will take place progressively over the first year. The revised structure of the Forestry Department shows an increase in overall staff complement from 175 to 267. This increase is attributable mainly to the introduction of key support personnel such as a Director of Corporate Services, Heads of Audit, IT, Legal, Communications, and Planning and the increase in forest technical and operational field staff.

At the end of the first full year a staffing and grading review should be held prior to introducing new pay scales. It is expected that the review will also lead to staff rationalisation due to the introduction of computer support and more efficient working. No estimate of the level of savings is currently possible.

Significant work has been undertaken on the need to strengthen the operational staff of the Forestry Department and this work will have to continue and be finalised in the transition year.

5 Financing Strategy

5.1 Financing the Implementation Cost

The expenditures relating to the transformation initiatives detailed in the Modernisation Plan have been recorded above. The initiatives are expected to be completed during the period of this plan and the consequent costs are included below.

5.2 Financing the Operational Cost

With respect to operating cost or recurrent funding, when the Core Funding, as defined in Section 2.3 above, is factored into the projected requirements, the amount to be financed from revenues or Appropriations-in Aid is as follows:

Item	2007-08	Core Funding		
		Interim Year	2009 -10	2010 – 11
Staff compensation	110195	229912	265581	265581
Travel and Subsistence	29381	91710	103486	103486
Property Rental	210	204	224	247
Utilities	6002	7352	8087	8896
Purchase of goods and services	31357	67227	73949	81344
Purchase of other equipment	7953	45998	9941	9941
Total	185098	442403	461268	469495
Income	2365	3320	3652	4017
Net Funding Requirement	182733	439083	457616	465478

J\$,000

5.3 **Financing the Capital Cost**

J\$, 000

Item	Projected Capital Cost		
	Interim Year	2009-10	2010 –11
Capital allocation	0	0	0
New capital required	38935	14225	6025
Total	38935	14225	6025

5.4 **Executive Agency Category**

The Financial Instructions to Executive Agencies refers to three categories of Executive Agency, which, in summary, can be defined as follows:

Model A	Non-income generating and financed from the Consolidated Fund
Model B	Income generating, but receives support from the Consolidated Fund
Model C	Income generating, and fully self-financing

The practice is for all Executive Agencies to fall into the Model B category during the transition period, and this would concur with the projected financial position of the Forestry Department.