



STRUCTURAL REVIEW OF BC TIMBER SALES

Discussion Paper #2

**Alternative Structural Models and
Opportunities for Improvement**

September 8, 2006

**Prepared by
Dave Peterson, Assistant Deputy Minister, BC Timber Sales and
Howard Saunders, H & W Saunders Associates Ltd.**

TABLE OF CONTENTS

1. EXECUTIVE SUMMARY	2
2. INTRODUCTION.....	4
3. KEY CHARACTERISTICS OF AN EFFICIENT AND EFFECTIVE BCTS, AND OPPORTUNITIES FOR IMPROVEMENT OVER THE CURRENT PROGRAM	6
3.1 THEME 1: CLEAR GOALS AND OBJECTIVES.....	7
3.2 THEME 2: TIMBER SALES PROGRAM DESIGNED TO SUPPORT MPS.....	12
3.3 THEME 3: PROGRAM DELIVERY SUCH THAT COSTS CAN BE USED FOR MPS	15
3.4 THEME 4: EFFECTIVE AND HIGH-PERFORMING ORGANIZATION	17
4. ALTERNATIVE STRUCTURAL MODELS	22
4.1 THE CURRENT BCTS STRUCTURE.....	23
4.2 REMAINING WITHIN THE MOFR, WITH GREATER SEPARATION.....	25
4.3 SPECIAL OPERATING AGENCY	27
4.4 CROWN CORPORATION	29
4.5 PRIVATE ENTITY DELIVERING THE BCTS FUNCTION UNDER CONTRACT.....	31
4.6 FULL PRIVATIZATION OF BCTS AND THE RESOURCES SUPPORTING IT	33
5. COMPARISON OF ALTERNATIVE MODELS	36
APPENDICES.....	37
APPENDIX I.....	38
<i>Context for this Structural Review.....</i>	<i>38</i>
APPENDIX II.....	39
<i>Structural Review Process.....</i>	<i>39</i>
APPENDIX III.....	41
<i>Linkage of MPS to BCTS.....</i>	<i>41</i>
APPENDIX IV.....	43
<i>Could BCTS be strengthened by incorporating the principles of a forest trust?.....</i>	<i>43</i>
APPENDIX V.....	44
<i>Submissions on the Discussion Paper on the Key Characteristics of an Effective, Efficient BCTS Organization,.....</i>	<i>44</i>

1. Executive Summary

This document is the second discussion paper as part of a review to determine if the current organizational structure of BC Timber Sales (BCTS) most effectively addresses its mandate, and to recommend any needed changes. As a discussion paper prior to a final round of stakeholder review, it examines various key characteristics of BCTS and then examines how various alternative structures might affect attainment of these characteristics, but does not weigh the alternatives to arrive at recommendations. That will occur after a September 21st stakeholder review workshop, and a period for review and comment running to the end of September. Stakeholder input, and the co-chairs' analysis will be incorporated in the final report to the Minister, by October 15, 2006.

The key characteristics of an efficient and effective BCTS are those that were identified during the earlier portion of the stakeholder review process, and that might be affected by the type of organizational structure recommended for BCTS. These key characteristics are reviewed along with opportunities to improve the current program, regardless of organizational structure, which were also suggested during the stakeholder review and submissions. The primary themes are:

- Clear goals and objectives
- Timber sales program designed to support MPS
- Program delivery such that costs can be used for MPS
- Effective and high-performing organization

Under each of these themes are four to eight key characteristics that are deemed relevant while examining various organizational structures, and which are reviewed as to the extent they address "requirements of this key characteristic" and "suggested improvements".

Six alternative structural models were selected and reviewed that are deemed to cover the spectrum of available organizational choices:

- The current BCTS structure
- Remaining within the MoFR, with greater separation
- A Special Operating Agency
- A Crown Corporation
- A private entity delivering the BCTS function under contract
- Full privatization of BCTS and the resources that support it

Each of these structures is briefly described and reviewed against the four major themes and their related key characteristics as to the "opportunities for improvement and constraints on achieving them". The merits and weaknesses of the various alternative structures are discussed but not evaluated in terms of arriving at final recommendations.

A final evaluation of the merits and weaknesses of these alternative structures will take into account their relative costs, implementation difficulties and importance to an "efficient and effective" BCTS, and will take place once this second discussion paper has been reviewed by

stakeholders and any further submissions have been received. Recommendations will follow from this evaluation.

2. Introduction

The Ministry of Forests and Range (MoFR) has initiated a review to determine if the current organizational structure of BC Timber Sales (BCTS) most effectively addresses its mandate, and to recommend any needed changes.

The complete Terms of Reference for this Structural Review and other background material can be viewed on the BCTS public website:

<http://www.for.gov.bc.ca/bcts/about/structuralreview.htm>

This review is co-chaired by Howard Saunders, an external consultant, and Dave Peterson, Assistant Deputy Minister, BCTS.

This is the second of two discussion papers circulated for this review. It summarizes the information gathered to-date, which will form the basis for the forthcoming recommendations, and is intended to solicit feedback on this information and on potential recommendations.

The Discussion Paper on the Key Characteristics of an Effective, Efficient BCTS Organization was circulated on August 1, 2006 and posted to the BCTS public website:

That paper focussed on the critical features or characteristics of BCTS as an organization that would affect the attainment of BCTS' mandate, building on a June 29, 2006 workshop involving a wide range of industry stakeholders and staff from BCTS and the Operations Division of the MoFR. The meeting notes from that workshop are also available on the BCTS public website.

The workshop participants provided input into these characteristics, discussed alternative structural models at a high level, and made numerous recommendations regarding how BCTS should conduct its business within any structural model. That broader input, which has widened the scope of this review to include such potential business improvements, has been incorporated into this second Discussion Paper, as has been the input received on the first paper.

Once again, public and stakeholder written comments on the topics and information presented in this Paper are encouraged.

Written submissions should be submitted to the address shown below, where they will be collected and forwarded to the co-chairs. Electronic format is preferred.

Comments on this paper are requested by September 22, 2006 if possible, and no later than September 30, 2006.

<p>Email to: Forests.BCTimberSalesHQOffice@gov.bc.ca Subject: BCTS Structural Review</p>	<p>Or mail to: BCTS Structural Review Attention: Office Supervisor BC Timber Sales, Headquarters PO Box 9510 Stn Prov Govt Victoria, British Columbia V8W 9C2</p>
--	---

3. Key Characteristics of an Efficient and Effective BCTS, and Opportunities for Improvement over the Current Program

This review has identified the following as key features, or characteristics of BCTS as an organization that would affect the attainment of the program's mandate. Four principal themes were identified, with specific characteristics within each theme, and are listed below. For each of these key characteristics, the review has identified opportunities to better align BCTS with these characteristics. These opportunities were generated by examining the current BCTS model and program. Many of them would apply to any of the alternative structural models under consideration, although the structural model chosen could impact the extent to which an opportunity could be realized. Section 4 of this paper compares various alternative structural models against the key characteristics and these opportunities for improvement.

Theme 1: Clear Goals and Objectives

- Clarity within the BCTS Strategic Goals
- Clear relationship with other MoFR, and government, objectives
- Consistent, transparent application of goals within BCTS
- Ability to link goals to performance measures

Theme 2: Timber Sales Program designed to support MPS

- Strong linkages with Market Pricing System (MPS) equation development process
- Open and competitive timber auctions
- Transparent data generation and collection
- Full coverage of the timber profile and market cycle
- Stability of BCTS' operating areas

Theme 3: Program delivery such that costs can be used for MPS

- Symmetry of obligations and comparability of costs with major licensees
- Transparent, auditable cost accounting at appropriate detail
- Contract management and procurement practices comparable to licensees
- Overhead structure comparable to licensees

Theme 4: Effective and High-performing Organization

- Appropriate, effective employment practices
- Ability to link individual reward to BCTS performance
- Appropriate access to necessary expertise
- Ability to foster individual and corporate business acumen
- Ability to implement most-effective internal structure
- Effective communication with customers and stakeholders
- Appropriate information support systems and processes
- Budgetary processes tailored to BCTS' business requirements

3.1 Theme 1: Clear goals and objectives

A fundamental element for any organization is the ability to clearly see the organization’s goals and objectives, and use them to derive long-term strategies, and inform day-to-day operational decisions.

The current mandate of BC Timber Sales is documented in the approved BCTS Service Plan as follows. While there has been no comment or concern raised around the Vision or Mission statements, there has been considerable discussion around the current strategic goals.

3.1.1 Clarity within the BCTS strategic goals

Requirements of this key characteristic	The meaning of each of the BCTS Vision, Mission and Goal statements must be clear and unambiguous, as must the relationship between the Vision, Mission and Goals, and the hierarchy within the four Goals
Suggested Improvements	Review participants have flagged a number of areas where the current goal statements could be clarified. As these improvements would be an issue in any of the potential structural models for BCTS, this paper has devoted significant attention to this topic.
<i>Goal 1: Provide a credible reference point for costs and pricing of timber harvested from public land in BC</i>	<p>No specific concerns have been raised around Goal 1. However, once the relationship between BCTS data and the MPS system has been clearly defined, it may be helpful to revise the wording of Goal 1 to be more specific.</p> <p>Given the current relationship between BCTS and MPS (as discussed in Appendix I), clearly this is the paramount goal for BCTS.</p>
<i>Goal 2: Optimize net revenue to the province, within the parameters dictated by our benchmarking mandate and safe and sound forest management practices.</i>	<p>There was considerable discussion around Goal 2. Participants have questioned if BCTS’ goal to optimize net revenue will interfere with their working within a competitive timber market. For example - will BCTS forgo portions of the profile, or restrict supply in poor markets, or use unduly high upset rates, in order to optimize revenue? Other participants have suggested the need for a business driver for BCTS.</p> <p>The use of the word “optimize” rather than “maximize” net revenue, has lead to some confusion. When this goal was written, “optimize” was chosen to indicate that net revenue would never be maximized, but would be subject to the limitations imposed by MPS data needs and by safe and sound forest management. As</p>

Goal 3: Provide opportunities for customers to purchase timber in an open and competitive market.

noted below, revenue maximization can be argued to be limited by the need to be a consistent supplier of fibre to the market, and by the need to be selling in times of weak prices as well as when prices are high.

As this goal is intended to be secondary to Goal 1, it may be helpful to revise the phrase “benchmarking mandate” to ensure it clearly refers to Goal 1.

As per the discussion under Goal 3 below, it may be helpful to acknowledge that Goal 2 is also secondary to a revised Goal 3, and to re-order Goals 2 and 3.

There are two distinct components to this goal that have each raised considerable discussion.

The phrase “provide opportunities for customers to purchase timber” was included when this goal was written to indicate the importance of customers to BCTS’ success. Comments received suggest that this concept be even further emphasized. At the same time, this phrase has been interpreted at times to mean that BCTS’ sales program must be designed to meet the needs of every potential customer. Strictly meeting this interpretation could conflict with Goal 1. A solution to the issue of these varying interpretations may lie in the following:

- revise this phrase to recognize the critical role that BCTS plays in supplying 20% of the province’s timber supply to harvesting and manufacturing operations, i.e., the critical linkage to the customers as represented by the forest industry as a whole.
- recognize that this role is still secondary to the role of supporting MPS as articulated in Goal 1.
- recognize that this role can result in limitations on BCTS’ ability to maximize revenues, and therefore consider re-ordering the current Goals 2 and 3, and re-wording the old Goal 2 accordingly.

The phrase “in an open and competitive market” was included when this goal was written to reinforce the linkage with Goal 1, and is completely consistent with the Vision and Mission of BCTS. However, this phrase has also solicited a considerable amount of feedback, and differing perspectives, as evidenced in the submissions received and in the June 29 Workshop Notes.

BCTS currently restricts eligibility for a portion of its sales to firms registered in Category 2 (value-added manufacturers registered as of June, 2003). Some submissions have called for the elimination of this “protected pool” of Category 2 volume, so that this volume would be available to all industry members in fully open and competitive auctions. (Currently, Category 2 timber sales are not included in the data set used for MPS due to the restrictions on bidding eligibility.) Other submissions have called for the retention of this protected pool, arguing that it is needed for the long-term sustainability of the value-added manufacturing sector.

While this discussion is ongoing, developments are unfolding around the Softwood Lumber Agreement with the US. This Agreement, once enacted, could see value-added manufacturers choose to divest themselves of their forest tenures, including their Timber Sale Licences, in order to avoid a higher export tax. Some manufacturers have already made that choice, in anticipation of the upcoming Agreement.

The co-chairs recognize the acute interest in the Category 2 protected pool issue from various industry segments. While this issue is not directly related to the Terms of Reference of the Structural Review, clearly it is related to the mandate of BCTS. However, the co-chairs believe it is necessary to get clarity around the implementation of the Softwood Lumber Agreement with respect to the value-added sector, prior to any decision on how this issue should be addressed within the mandate of BCTS.

Goal 4: Be a high performing organization with skilled, motivated and proud people

No specific concerns have been raised around Goal 4. However, once the opportunities for improvement discussed under Theme 4 have been considered, it may be helpful to revise the wording of this goal.

This goal is not seen to be in conflict with any of the others.

3.1.2 Clear relationship with other MoFR, and government objectives

Requirements of this key characteristic

Government has a broad array of objectives around the management of BC's forest and range resources. Most, but not all of these are contained within the mandate of the Ministry of Forests and Range. A need for clarity was expressed around how the relatively narrow mandate of BCTS relates to these broader objectives.

Suggested Improvements

There was considerable discussion by the review participants around this characteristic. Outside of the question of the Category 2 protected pool, noted above, there was general agreement that a clearer separation between the objectives and activities of BCTS, and those of MoFR as a whole was necessary. Many ways of creating this separation have been suggested, each with its own likelihood of success and attendant cost. Some of these will be examined in more depth in Section 4 and Appendix II.

Opportunities for greater separation between BCTS and the MoFR include:

- Distinct visible identity:

Customers can be confused when BCTS staff are not visibly distinct from MoFR staff. Distinctive shirts, logos, office signage, truck labels, truck colours and office buildings could all alleviate this; some options would be relatively easy to implement, while others could be quite costly.

- Distinct office spaces:

BCTS staff might be better able to focus on their mandate if they are physically separate from other MoFR staff. In most offices this physical separation already exists, but not in all. In some locations, it could be very expensive to create this level of separation.

BCTS staff could be relocated to completely different buildings from other MoFR staff. As discussed below, BCTS overhead costs might be much cleaner and more transparent under this option. There would be upfront moving costs to achieve this, and in most locations, there would probably be an increase in office costs. In some towns, there are limited to no

other viable office locations.

- Distinct mandate statements:

BCTS could ensure that their revised mandate statements are clearly enshrined and endorsed by the Minister and Deputy, and communicated by the Minister and Deputy throughout the MoFR.

The BCTS mandate statements could be enshrined in law, either within existing legislation or in a distinct Act.

- Alternative Authorities

An agency outside of the MoFR, such as Treasury Board, could be given the authority to approve the BCTS business plan, and any departures from that plan.

As discussed in Appendix IV, BCTS could enter into a trust model, giving BCTS fiduciary responsibility to groups outside of the MoFR.

3.1.3 Consistent, transparent application of policies and procedures within BCTS

Requirements of this key characteristic

Having clear goals and objectives in themselves is not enough; there must be a mechanism to ensure that BCTS policies and procedures reflect the intent of these goals, are understood by staff, and are applied transparently and consistently across the province and among all customers.

Suggested Improvements

Following a re-writing of the goal statements as discussed above, this characteristic can be addressed through existing means, including: thorough and continual review of all BCTS policies and procedures against the goals, clear communication to all staff, and continual monitoring of their application.

3.1.4 Ability to link goals to performance measures

Requirements of this key characteristic

Clear goals and objectives need to be supported by performance measures that directly relate to these goals, and are used to monitor and direct BCTS activities. This topic comes up again under Theme 4 – Effective and High-performing Organization in the context of the ability to manage to these performance measures.

Suggested Improvements

Following a re-writing of the goal statements as discussed above, this characteristic can be addressed through existing means, most importantly the BCTS Service Plan and the objectives and performance measures contained within it.

3.2 Theme 2: Timber Sales Program designed to support MPS

As outlined in Appendix I, the Market Pricing System (MPS) creates a very strong linkage between the bid prices received for timber competitively auctioned by BCTS and the price set for timber harvested by major licensees under long term forest tenures.

As per the discussion above, this linkage could be further strengthened by revisiting the BCTS Mandate and the relationship between BCTS and the remainder of the MoFR. Section 4 discusses the considerable interplay between this theme and the choice of structural model.

3.2.1 Strong linkages with MPS equation development process

Requirements of this key characteristic

BCTS generates sales data that is then used by other Ministry branches to determine an MPS equation that may be used to set the upset price for auction timber and, with adjustments, to set the price for timber from major tenures. Both BCTS, as an organization, and the MPS pricing system are relatively new; therefore there are still many issues to be resolved within this relationship. It is at least convenient, and possibly necessary, that BCTS maintain an ongoing dialogue with MoFR to ensure that the data it generates is adequate for the statistical requirements of MoFR.

Suggested Improvements

The linkage between BCTS, other branches of the MoFR, and the forest industry must continue as long as the MPS system remains in place, although the degree of interplay may fall as both BCTS and the MPS mature. As discussed in Section 4, the choice of structural model could have an impact on this relationship.

3.2.2 Open and competitive timber auctions

Requirements of this key characteristic

BCTS' requirement to generate credible pricing data, to protect the Crown's revenue and to provide transparency and fairness to timber buyers depends on open and competitive timber auctions.

Suggested Improvements

Subject to the discussion above on the Category 2 protected pool, BCTS' current program is seen to address this characteristic. Opportunities do exist to strengthen BCTS' ability to meet this characteristic over the long term, per the discussion above on separating BCTS' mandate from that of the MoFR as a whole.

3.2.3 Transparent data generation and collection

Requirements of this key characteristic

The generation and collection of auction results, and the capturing of the associated descriptive MPS data for the parcels of timber sold need to be done transparently for the data to be seen as credible.

Suggested Improvements

Numerous specific, operational suggestions have been made on how to improve BCTS' data generation and collection; all of them would be possible under any structural model. The choice of structural model could, however, have a significant impact on the transparency of the data.

3.2.4 Full coverage of the timber profile and market cycle

Requirements of this key characteristic

From a technical perspective, BCTS needs to offer the full profile of timber being harvested by major tenure holders if it is to provide credible data to support MPS. To be credible both as a data source and as a consistent supplier of timber, it must also be engaged in timber sales, to some extent, in all stages of the market cycle. BCTS must continually test the market across all significant timber types, sale sizes, harvesting systems and geographic areas of the province. Related to this, as a provider of

Suggested Improvements	<p>20% of the available timber in BC, BCTS must function as a reliable supplier to the forest industry as a whole.</p> <p>BCTS policies and procedures need to clearly articulate how this characteristic is being addressed. BCTS could be directed to meet an annual sales target of 20% of the province’s harvest while testing the market across the full profile of timber types, sale sizes, harvesting and silviculture systems, and geographic areas of the province. This direction can be provided within the current structure, but the choice of an alternative structural model could have a significant impact on the ability to deliver on this characteristic.</p>
------------------------	--

3.2.5 Stability of BCTS’ operating areas

Requirements of this key characteristic	<p>BCTS has only recently received many of its new operating areas through the timber reallocation program; in some areas of the province the process is still being finalized. BCTS needs to have stable, durable operating areas in order to effectively schedule its sales plans and thus meet the MPS target of selling 20% of the allowable annual cut in each pricing analysis unit. In addition, as with the rest of the forest industry, the stability of BCTS’ sales program is dependent on stable access to the forest land base. BCTS must be able to operate in a socially, and environmentally sound manner, and maintain acceptable safety-related standards, in order to maintain the support of the general public for its use of the public forest resource.</p>
Suggested Improvements	<p>Under the current model, BCTS is seen to be excessively vulnerable to the erosion of its operating areas through re-allocation of these areas to alternative tenures. This threat could be reduced either by the stronger implementation of its mandate, as noted above, or by the selection of an alternative structural model.</p>

3.3 Theme 3: Program delivery such that costs can be used for MPS

The Market Pricing System also creates a very strong linkage between the costs BCTS incurs within the delivery of their program, and the price set for timber harvested by major licensees under long term forest tenures.

This linkage could be strengthened through revisiting the BCTS Mandate and the relationship between BCTS and the remainder of the MoFR, or through the choice of structural model, as discussed in Section 4.

3.3.1 Symmetry of obligations and comparability of costs with major licensees

Requirements of this key characteristic

For BCTS costs to be used to as a proxy for the costs that an average, efficient operator would incur for the same forest management responsibility, the obligations that BCTS holds must be symmetric to those of the licensees, and the categories used for cost accounting must be comparable. BCTS must face, and address, the same social and environmental challenges as do the major licensees.

Suggested Improvements

Numerous, specific, operational suggestions have been made to ensure that BCTS faces, and addresses, the same social and environmental challenges as do the major licensees. These suggestions could be pursued within any of the structural models.

3.3.2 Transparent, auditable cost accounting at appropriate detail

Requirements of this key characteristic

MPS requires transparent, auditable cost accounting from BCTS in adequate detail to permit comparison with industry costs.

Suggested Improvements

Considerable dialogue between BCTS, other branches of the MoFR, and the forest industry is still needed before all parties can be assured that BCTS' cost data fully meets this requirement. Improvements can be applied within the current structure or any alternative model, though some would require increased distance from government. Again, the choice of structural model could have a significant impact on the transparency of the data.

3.3.3 Contract management and procurement practices comparable to licensees

Requirements of this key characteristic	The bulk of BCTS' on-the-ground activities are delivered through the contracting or procurement of outside goods and services. Where those costs are to be used for MPS, BCTS contract management and procurement practices must result in a comparable cost structure.
Suggested Improvements	There has been considerable discussion within this review around BCTS' contracting and procurement practices and how comparable they are with those of the licensees. Prior to full use of BCTS costs within MPS, further detailed dialogue is needed to clarify exactly where any differences lie, and, in turn, whether those differences result in significant differences to the actual costs incurred. At the same time, there needs to be greater clarity around exactly how BCTS' costs will be used within the MPS system, prior to making significant changes to BCTS procurement practices purely for the purpose of supplying cost data to the MPS system. The choice of structural model could have an impact on BCTS' ability to meet this characteristic.

3.3.4 Overhead structure comparable to licensees

Requirements of this key characteristic	<p>If BCTS' overhead costs are to be used as a proxy for industry overhead costs, the overhead cost structures must be comparable.</p> <p>Some review participants have questioned whether BCTS overhead costs were ever intended to be used as a proxy for industry costs, or if they would only serve as a comparison. If the latter is the case, this item should not be included as a key characteristic.</p>
Suggested Improvements	The review participants have raised numerous specific issues around the differences between BCTS' overhead structure, and overhead costs, and those of a licensee. It is difficult to see that those differences could be rectified without significant changes to BCTS cost accounting procedures, stronger separation from the rest of the MoFR, or a change to an alternative structure. Even under an alternative structure, it is probable that the mandate of



BCTS would be so different from that of a licensee that it would preclude a comparable overhead structure.

Prior to making significant changes to the BCTS system or structure to address this characteristic, it is necessary to examine the various options for the use of BCTS overhead costs within MPS.

3.4 Theme 4: Effective and high-performing organization

Theme 4: Effective and High Performing Organization

Given the critical linkages between BCTS’ activities and Crown timber pricing, Crown revenue, and fibre supply to the forest industry, it is important for BCTS to operate efficiently and effectively.

Numerous opportunities are seen to exist that would improve the efficiency and effectiveness of BCTS. Some can be implemented within any structural model, while others could be significantly impacted by the choice of structural model, as discussed in Section 4.

3.4.1 Appropriate, effective employment practices



Requirements of this key characteristic

BCTS is seen to need the flexibility to pay competitive salaries, and hire appropriate staff. This could require program-specific flexibility on staff job classifications, management exclusions, the number of hours worked and the length of the business day.

Suggested Improvements

Currently, BCTS falls under the *Public Service Labour Relations Act*, and existing collective agreements with the BCGEU and the PEA. These agreements allow BCTS flexibility on the length of the business day, with a cap on total straight-time hours worked per year. The ability to exercise this flexibility can be limited pragmatically, when BCTS shares office locations with other MoFR staff. Similarly, BCTS flexibility on staff job classifications and on management exclusions may be constrained by logistics within the larger MoFR, as well as by central agency policies, the Act, and collective agreements.

3.4.2 Ability to link individual reward to BCTS performance

Requirements of this key characteristic

Not only must BCTS have clear goals and objectives that can directly link to performance measures, but it needs the ability to use those measures to reward high performance and correct under-performance at the level of individual staff.

Suggested Improvements

There is nothing within the current structure that restricts BCTS from linking individual performance to BCTS performance; in fact the Service Plan and individual Employee Professional Development Plans can be used to do exactly that. However, existing collective agreements and central agency policies do not allow employee bonus programs for high performance.

3.4.3 Appropriate access to necessary expertise

Requirements of this key characteristic

BCTS' ongoing activities require ready access to specialized expertise including: foresters, accountants, engineers, MBAs, archaeologists, etc. BCTS must either be able to hire these experts where there is a business case for internal resources, or to obtain the expertise through outside sources.

Suggested Improvements

It is not clear that any improvements are needed to the current model to ensure that BCTS can address this characteristic, or if an alternative structure would be superior. Currently, BCTS is able to draw upon the specialized resources available within the larger MoFR organization, and, where BCTS has its own specialists, they can benefit from peer discussion with their MoFR counterparts. On the other hand, if BCTS was in a more independent structure, it might be able to create attractive job classifications specifically tailored to BCTS business requirements.

3.4.4 Ability to foster individual and corporate business acumen

Requirements of this key characteristic

In order to operate as a timber marketer, BCTS needs to understand its markets and markets drivers, and be responsive to market opportunities. The organization must be cost conscious, cost effective and competitive. BCTS needs the ability to pursue business opportunities that are consistent with its mandate.

Suggested Improvements

Inherently, if BCTS moved to an alternative structure that was profit-oriented by nature or design, it would likely improve BCTS' business acumen. Alternatively, opportunities exist to strengthen the business drivers within the current structure; Appendix IV (Forest Trust) explores one of them.

Having the ability to pursue business opportunities, such as offering contract services to other licensees, would be one way to facilitate an entrepreneurial mind-set within staff. BCTS' financial system would need to be able to accommodate, and differentiate, revenue and expenses from activities other than timber sales. More importantly, depending on how exactly BCTS costs are going to be used within MPS, BCTS' pricing role could place a significant limitation on how far BCTS can go in pursuing alternative business opportunities.

3.4.5 Ability to implement most-effective internal structure

Requirements of this key characteristic

BCTS business requirements vary substantially across the province, and will fluctuate over time as market and industrial conditions change. BCTS needs the flexibility to adapt its internal structure to those changing conditions.

Suggested Improvements

Currently BCTS has a relatively uniform structure in each of its business and field offices. In turn, the operation of those offices is linked somewhat with the day-to-day operations of the rest of the MoFR, in large part due to shared office locations. Currently, substantial changes to the present BCTS business/field structure, or to the location of those offices, would be reviewed within the context of the MoFR organization as a whole. Broader government priorities may also affect any substantial changes to

office locations. The choice of an alternative structural model would likely give BCTS more flexibility to adjust its internal structure to changing business conditions; however it is unclear at this time where that flexibility would be needed, nor has a business case been developed for any substantial change at this time.

3.4.6 Effective communication with customers and stakeholders

Requirements of this key characteristic

Effective two-way communication is essential for BCTS: both informing stakeholders and the public on BCTS priorities and programs, and gathering information on client and stakeholder needs, market intelligence, etc.

Suggested Improvements

Numerous suggestions have been made in how to improve the current dialogue and communication between BCTS and its customers and stakeholders. Improving that communication should also create a better business understanding within BCTS. None of these improvements are constrained by the current BCTS structure, and while there would be pluses and minuses on the communication front from moving to an alternative structural model, no one model would appear to be inherently superior to any other.

3.4.7 Appropriate information support systems and processes

Requirements of this key characteristic

BCTS' activities are highly dependent on the collection, generation, and analysis of business information specifically tailored to BCTS needs. BCTS needs the ability to tailor its information systems to its specific requirements.

Suggested Improvements

BCTS is currently undergoing an intensive review of its information support system and processes. Recommendations from that review are expected in September. It is anticipated that work will identify a number of opportunities for improvement; it is not clear at this point if any of them will be limited by BCTS' choice of structural model.

3.4.8 Budgetary processes matched to BCTS' business requirements

Requirements of this key characteristic

BCTS activities and expenditures for any individual timber sale are spread over a number of years, and generally do not coincide with the year or years that revenue is generated from that timber sale. BCTS must have a multi-year budget cycle, and the ability to capitalize costs, in order to match expenditures with revenues and manage and report its financial affairs in a fashion similar to the private sector.

In order to quickly react to changing market and other conditions BCTS needs approval of an overarching annual business plan, rather than specific, individual spending approvals throughout the year

BCTS must be able to deliver its program in all parts of the market cycle, irrespective of government fiscal fluctuations, and to dependably deliver its sales to the marketplace throughout the year, unencumbered by government-wide mid-year budget freezes and restriction.

Future years' timber sales programs and revenue generation are dependent on up-front expenditures of capital funds for infrastructure, planning and development. Subject to standard capital funding approval exercises, BCTS must have sufficient access to capital in every operating year.

The bulk of BCTS on-the-ground activities are delivered through the contracting or procurement of outside goods and services. BCTS needs the flexibility to source these goods and services in the most cost-effective way.

BCTS currently has a multi-year budget cycle and the ability to capitalize costs, and the freedom to operate within an approved annual business plan. These same abilities could be preserved within any of the alternative structures. BCTS could also be given the ability to retain funds for costs that will be incurred in future years, such as for silviculture obligations resulting from current or imminent harvesting activities.

BCTS currently has an informal exemption from government-wide mid-year budget freezes and restrictions. It would be an improvement to get this formalized within any of the alternative structures.

Suggested Improvements

BCTS' current capital planning and budget process is comparable to that of a licensee and is not an undue constraint on capital. This same ability should be available under any of the alternative structures, depending on how they are structured at start-up.

Should the move to an alternative structure require significant up-front capital costs for buildings, or infrastructure, that requirement could be a significant impediment within any model.

BCTS is currently subject to some requirements to use central services or suppliers. It is not clear that this always results in the most cost-effective goods or service. BCTS could be granted the ability to put these goods or services out to tender, with the tender opportunity also going to the central supplier. This opportunity could be granted within the current structure, and would be inherently available under some of the alternatives.

4. Alternative Structural Models

Section 3 of this Paper has identified a number of key features or characteristics of the BCTS organization that would affect the attainment of BCTS' mandate, and a number of opportunities to better align BCTS with these characteristics. The opportunities discussed in Section 3 were generated by examining the current BCTS model and program, but the discussion also pointed out where the choice of an alternative structural model could have a bearing on the ability to realize that opportunity.

This section briefly discusses and explains a number of potential alternative structural models, and compares them against the key characteristics and opportunities for improvement, with the focus being on the characteristics and opportunities that are deemed to be sensitive to the structural model. Where the improvements could be achieved within any of the potential models, they will not be discussed in this section.

Section 3 has identified a number of opportunities for improvement, and this section discusses alternative structural models. Implementing many of these potential changes could result in significant costs or organizational disruption. This paper identifies these potential implications, but has not attempted to quantify them. Similarly, there are considerable synergies for both BCTS and MoFR within the current structure that would be lost in some of the alternative structures. Prior to a final decision on any significant change, a business case would be required weighing these costs against the anticipated benefits.

The following models are examined in this Section. This paper uses the term BCTS in describing all of these models; clearly, for some of these structures, the term BCTS just refers to the maintenance of the BCTS function and does not imply the maintenance of the same

organization. While there are a number of possible variants on any of these models, it was deemed that these cover the spectrum of available choices.

- The current BCTS structure
- Remaining within the MoFR, with greater separation
- A Special Operating Agency
- A Crown Corporation
- A private entity delivering the BCTS function under contract
- Full privatization of BCTS and the resources that support it

4.1 The current BCTS structure

4.1.1 Description of the model

BCTS is a semi-autonomous organization within the Ministry of Forests and Range (MoFR). The activities of BCTS support the MoFR's overall mandate and the specific goal of providing British Columbians with sustainable benefits from the commercial use of public forests.

BCTS is nominally a division within the MoFR, with an Assistant Deputy Minister (ADM) reporting to the Deputy Minister. BCTS has a relatively small Headquarters located in Victoria, and 12 Business Areas across the province, with each Business Area having a business office and one or more field offices. The BCTS ADM is a member of the MoFR Executive; all other BCTS employees are in a discrete reporting unit from the rest of the MoFR. BCTS shares offices, vehicles and other facilities with the MoFR in Victoria and throughout the province, generally with distinct office spaces within shared buildings. Any goods or services provided to BCTS by the MoFR, as documented in annually-revised Service Agreements, are charged as expenses to the BCTS program.

BCTS operates under a special financial account established under the *Forest Act*. The purpose of this account is to identify all revenues for BCTS and to provide an ongoing source of funds to defray the cost of the program. Revenues are collected from Timber Sale stumpage, program fees, and from the recovery by BCTS of the cost of goods and services provided to ministries and other organizations. Revenue in excess of current expenses and outstanding obligations is transferred to the government's Consolidated Revenue Fund. Disbursements are included to reflect capitalizable costs incurred for development of timber for sale in future years. These costs are recovered from future sales revenue. Under this account, BCTS annually files for approval a separate Service Plan that is included within the overall MoFR Service Plan, and gets annual approval for its budget, within the overall approval for the MoFR budget. This financial structure is significantly different than that of the rest of the MoFR.

BCTS employees fall under the *Public Service Labour Relations Act*, are covered by the existing 4 year collective agreements with the BCGEU and PEA.

4.1.2 Opportunities for improvement, and constraints on achieving them

The opportunities for improvement that were identified earlier came from examining the current BCTS model and program. They should not be considered as criticisms of the current model, nor as automatic reasons to move to another model, as many of them could be implemented within the existing structure, and many may just as easily apply to some or all of the alternative structures under consideration.

Theme 1: Clear Goals and Objectives

The improvements to the current BCTS mandate statements that were identified in Section 3, and the linkages to performance measures and consistency of application, are considered essential within this or any other structure. The actions needed to provide greater clarity on the relationship between BCTS goals and MoFR goals at a minimum would appear to require some modification of the current model as suggested under “*Remaining within the MoFR, with greater separation*” below, or to one of the other alternative models covered later in this Section.

Theme 2: Timber Sales Program designed to support MPS

The current structure allows the maximum ability for iterative dialogue with other branches of the MoFR on the linkages between MPS and BCTS data and activities. Significant opportunities still exist to improve the data generation, collection and transferring processes, and they are probably most easily explored if BCTS remains within the MoFR.

Under the current structure, there is significant potential for BCTS to be pressured by the broader MoFR organization to change the sales program to address broader MoFR objectives. Similarly, there can be pressure from the rest of the MoFR to make BCTS operating areas available to other tenure holders. Addressing these issues could require a shift to one of the other alternative models covered later in this section.

Theme 3: Program delivery such that costs can be used for MPS

This is seen as an area that still requires considerable joint work and dialogue with other MoFR branches and the industry. Without implementing at least some of the concepts for more separation from the rest of the MoFR, it may be extremely difficult to have a BCTS cost accounting and financial reporting system that is seen by all parties to be transparent and accurate. On the other hand, it can be questioned whether the generation of transparent, accurate cost data in all cases is a goal that, by itself, warrants the additional costs involved in shifting to a different

Theme 4: Effective and High-performing Organization

structural model This point seems to be particularly germane to the issue of overhead cost data.

Given the considerable public scrutiny around the expenditure of public funds, it is questionable whether any government agency would ever have the same contract management and procurement practices as a private entity; however it is unclear whether this difference has a material effect on the ability to compare BCTS' cost structure to that of licensees.

The existing collective agreements allow BCTS considerable flexibility to implement many innovative people practices, to recognize personal performance, and to hire appropriate staff. BCTS needs to ensure that it is fully utilizing this available flexibility.

BCTS could be granted more flexibility on sourcing services outside of government, and on spending authority levels, within the current model or in any of the alternatives.

BCTS could have the current appropriate budgetary processes and informal exemptions from across-the-board staff cuts and spending freezes formalized through either regulation or legislation.

4.2 Remaining within the MoFR, with greater separation

4.2.1 Description of a modified model

As discussed in Section 3, there is a spectrum of degrees of separation that could be created between BCTS and the remainder of the MoFR. For the purposes of this Paper, and for comparing with alternative structures, this model is described as follows. Other variations could be considered.

- *Distinct, formal mandate:*

BCTS would have a legislated mandate statement, within either the *Forest Act* and/or the *Ministry of Forests Act*. This legislated mandate could include some, or all of, the Forest Trust aspects discussed in Appendix II, or could include a role for Treasury Board in approving any departures from established priorities. This distinct mandate and role would be fully communicated to all BCTS and MoFR staff, along with the rationale.

- *Distinct identity*

BCTS would take steps to create a distinct visible identity; with consideration to the costs and benefits of any moves.

- *Separate facilities where practicable*

BCTS would examine the opportunities, and associated costs to both MoFR and BCTS, for moving to separate office buildings across the province. BCTS would also take part in a joint study with MoFR and industry to examine the steps (accounting systems, service agreements, etc) needed to create truly transparent overhead costs that can be fairly compared to those of industry. Using this information, an assessment would be made of what role BCTS overhead and other costs should play within MPS, and a decision then made on how far BCTS would go in moving to separate office buildings or to completely distinct areas within the existing buildings. That decision would need to consider the people practices implications of any move.

4.2.2 Opportunities for improvement, and constraints on achieving them

As noted above, the degree to which these opportunities could be realized within this model would be somewhat dependent upon the chosen degree of separation.

Theme 1: Clear Goals and Objectives

Clarifying the mandate for BCTS, and entrenching it in legislation or regulation, might substantially achieve these characteristics.

Theme 2: Timber Sales Program designed to support MPS

This model would retain the opportunity for iterative dialogue with other branches of the MoFR.

Following the clarification and strengthening of the BCTS mandate, strong internal MoFR communication would be needed to avoid the continued pressure on the BCTS timber sales program and operating areas. Implementation of some, or all, of the trust concepts discussed in Appendix II would serve as strong counterpoints to this pressure.

Theme 3: Program delivery such that costs can be used for MPS

This model should result in a greatly improved linkage between BCTS activities and MPS cost data requirements, based on a better understanding of the relationship between the two.

Theme 4: Effective and High-performing Organization

This model should allow BCTS more flexibility to implement innovative people practices, and facilitate granting BCTS more independence on procurement, spending authorities, etc. Acknowledging in legislation that BCTS has a distinct role from the rest of the MoFR should reduce the implications of applying a different set of rules to one part of that broad MoFR organization. These implications would be substantially further reduced if BCTS staff were located in very distinct or separate offices.

Where the efficiency gains explored by BCTS also make sense for the broader MoFR organization, this model should facilitate the transfer of those efficiencies over to the MoFR as a whole, while this transfer would be less likely in other models with a greater degree of separation.

4.3 Special operating agency

4.3.1 Description of the model

There can be wide variability in the makeup of Special Operating Agencies (SOAs), as they are established by legislation with terms specific to that agency. Prior to the establishment of an SOA, and the writing of the supporting legislation, a business case must be presented to government outlining the rationale for the SOA and for its legislative underpinnings. There are considerable start-up costs in establishing an SOA: building the business case, drafting the legislation, establishing the unique terms and conditions, etc. If an SOA required distinct office locations and facilities across the province, these start-up costs would be significant.

SOAs report directly to government, generally through a Cabinet Minister, but are completely distinct legal entities from any ministry or other agency reporting to that Minister. SOAs may have advisory boards, but government retains the ability to provide direction to the SOA through the Minister. Generally, an SOA is chosen over a Crown Corporation where the entity has both commercial and non-commercial objectives that must be balanced within the operation.

An SOA would be a distinct entity within the government accounts, subject to the *Financial Administration Act*, and other Acts, as per the terms of the SOA legislation. SOAs can remain subject to the *Public Service Labour Relations Act (PSLRA)*, employees retain their public service status and the existing collective agreements continue to apply. An SOA would have distinct seniority units.

It is assumed that an SOA would have complete flexibility to share services and facilities with other areas of government, including the rest of MoFR, to the extent that sharing was practical and preferable, and within the terms of shared services agreements.

4.3.2 Opportunities for improvement, and constraints on achieving them

As noted above, the degree to which these opportunities could be realized within this model would be dependent upon the terms of the governing legislation.

Theme 1: Clear Goals and Objectives

The SOA legislation would require clarity around the mandate for BCTS, would entrench that mandate, and would clearly establish the relationship with the MoFR.

Theme 2: Timber Sales Program designed to support MPS

The opportunity for iterative dialogue with other branches of the MoFR on the design of MPS, and the linkage with BCTS, would be retained within this model, but might be more-formalized and less iterative than the models that retain BCTS within MoFR.

This model should significantly minimize the creation of internal MoFR pressures on the BCTS timber sales program and operating areas, but does retain the opportunity for direction from the Minister. As a government agency, an SOA would still be subject to pressures to address broader government interests.


Theme 3: Program delivery such that costs can be used for MPS

An SOA should result in clearly transparent and stand-alone financial reporting and cost accounting, subject to the constraints within any shared services agreements. An SOA overhead cost structure might be more closely aligned with that of a major licensee.

Nominally, an SOA would have the ability to outline its own contracting and procurement terms and practices. While these might be more closely aligned with that of a licensee, the public interest in fair, transparent expenditure of public funds might preclude the implementation of exactly the same practices as those of licensees.

Theme 4: Effective and High-performing Organization

Employees of an SOA could remain subject to the *PSLRA* and the terms of the existing collective agreements. An SOA may be free to attempt to negotiate alternative working arrangements in subsequent collective agreements, subject to the broader direction of associated bargaining. As a distinct entity, an SOA might have more ability to arrive at agreements on innovative people practices. The SOA would be responsible for the additional costs created by this distinct collective bargaining.



An SOA may well have complete flexibility on implementing the financially-related opportunities for improvements, subject to the terms of its legislation.

An SOA would not inherently be better suited to developing business acumen, but the mandate and legislation might facilitate that improvement.

As a stand-alone entity that is much smaller than the MoFR, an SOA could incur significantly greater costs for many of the services BCTS currently pays the MoFR to deliver.

4.4 Crown Corporation

4.4.1 Description of the model

As with SOAs, there is wide variability in the makeup of Crown Corporations, as they are also established by legislation with terms specific to that entity. Again, a business case must be presented prior to the establishment of a Crown Corporation and the development of its terms, and there are significant start-up costs.

Crown Corporations retain the public interest in the assets managed and owned by the Crown Corporation, but the operation of the Crown Corporation is arms-length from government. Crown Corporations report to a Board of Directors; generally only some of the Directors are appointed by government. Usually, a Crown Corporation structure is chosen over that of an SOA when the entity in question is purely focussed on commercial objectives.

A Crown Corporation is a distinct entity within the government accounts, with the relationship with the *Financial Administration Act*, and other Acts, established by the terms of its legislation.

The *Labour Relations Code* outlines the “successorship” provisions when a portion of government is transferred out of the public service to a Crown Corporation. Where “successorship” occurs, the terms of the existing collective agreements apply unless and until those agreements are renegotiated. Crown Corporations generally are not covered by the *Public Service Labour Relations Act* and employees lose their public service status.

A Crown Corporation has complete flexibility to share services and facilities with other areas of government, including the rest of MoFR, to the extent that sharing would be practical and preferable, and within the terms of shared services agreements.

4.4.2 Opportunities for improvement, and constraints on achieving them

As noted above, the degree to which these opportunities could be realized within this model would be dependent upon the terms of the governing legislation.

Theme 1: Clear Goals and Objectives

The Crown Corporation legislation would require clarity around the mandate for BCTS, would entrench that mandate, and would clearly establish the relationship with the MoFR.

Theme 2: Timber Sales Program designed to support MPS

BCTS practices, as they relate to the generation of data to be used in MPS, would need to be very clearly and carefully articulated within the legislated mandate of the Crown Corporation. The opportunity for iterative dialogue with other branches of the MoFR on the design of MPS, and the linkage with BCTS, would probably be considerably limited under this model. It could be very difficult to implement minor or major changes to BCTS mandates or procedures, as new experience points to needed modifications in the relationship between MPS and BCTS data.

This model would eliminate the influence of the MoFR, and government in general on the BCTS sales program and operating areas. As a government agency, a Crown Corporation would still be subject to pressures to address broader government interests but they would need to be consistent with the legislated mandate of the Crown Corporation.


Theme 3: Program delivery such that costs can be used for MPS

A Crown Corporation would result in clearly transparent and stand-alone cost accounting, and the overhead cost structure would likely be more closely aligned with that of major licensees.

While a Crown Corporation would have the legislated ability to establish its own contracting and procurement terms and practices, it would still be subject to the public interest in fair, transparent expenditure of public funds.

Theme 4: Effective and High-performing Organization

A Crown Corporation would have greater flexibility to implement innovative financially-related improvements, subject to the terms of its legislation, and to negotiate alternative working arrangements.



A Crown Corporation would incur significant ongoing costs in the running of a stand alone entity, including: financial, labour relations, legal services and systems and data management. As a stand-alone entity that is much smaller than the MoFR, a Crown Corporation could incur significantly greater costs for many of the services BCTS currently pays the MoFR to deliver.

Given a clear, business-related mandate, a Crown Corporation would be better suited to developing business acumen

4.5 Private entity delivering the BCTS function under contract

4.5.1 Description of the model

There is wide variability in the potential models for privatization of BCTS: this review examines two of the variants. Under the first variant, essentially a sales agency contract, the mandate of BCTS would be clarified as discussed in previous sections and would remain within the overall mandate of the MoFR. In turn, the BCTS function, in terms of supporting MPS and supplying fibre to the marketplace, would be fully contracted to a private firm, perhaps similar to the manner in which timber management companies operate timberlands owned by pension funds and other investment groups in the US. While it would be possible to implement this model over just a portion of BCTS, such as a single Business Area, either as a pilot or over the long term, it is difficult to see how this could occur and still maintain the overall integrity of the BCTS data set.

There are three general considerations that are usually applied prior to determining that a function should be moved out of government to the private sector: consideration of whether the function has a material affect on government's overall objectives; consideration of how easily the function can be contracted and whether there will be a need to continually re-specify the function; and consideration of the need for independence from the influence of government in the day-to-day operations.

Under this model, the contract between the MoFR and the private entity would have to specify very clearly and carefully the rules around its activities, as they relate to the delivery of the BCTS mandate. Where the activities of the private entity were not constrained by its contract, it would have complete freedom to operate in its own business interests. An issue with this model is that the pool of companies qualified to undertake this role could be constrained by conflict-of-interest considerations – a company could not be seen to be buying and selling in related markets.

The financial arrangements for this model would be very similar to those for an SOA or Crown Corporation, with the activity delivered by the private entity rather than the SOA/Crown Corporation. The contract would need to clearly specify how the private entity would be compensated for its services: if it would receive a fee for service or would obtain a share in

gross or net revenues, so as to provide government fair revenue from the sale of the Crown timber and the private entity fair profit from its operations and innovations.

The *Labour Relations Code* outlines the “successorship” provisions when a business of government is transferred out of the public service to a private entity. Where “successorship” occurs, the terms of the existing collective agreements would apply unless and until those agreements are renegotiated by the private entity. These provisions would not include retention under the *Public Service Labour Relations Act* and employees would lose their public service status.

The existing collective agreements include restrictions on the privatization of government activities or the transfer of such activities to an Alternative Service Delivery model.

4.5.2 Opportunities for improvement, and constraints on achieving them

The degree to which these opportunities could be realized would be somewhat dependent upon the terms of the contract with the private entity.

Theme 1: Clear Goals and Objectives

The contract would require clarity around the mandate for BCTS, would entrench that mandate, and would clearly establish the relationship with the MoFR.

Theme 2: Timber Sales Program designed to support MPS

BCTS practices, as they relate to the generation of data to be used in MPS, would need to be very clearly and carefully articulated within the contract. The opportunity for iterative changes to BCTS mandate or procedures, as new experience points to needed modifications, would probably be severely limited under this model.

This model would significantly reduce the influence of the MoFR, and government in general on the BCTS sales program and operating areas on a day-to-day basis. Any significant changes would probably have to be negotiated into the contract at the time of replacement.

Depending on the arrangements within the contract, there would be a strong incentive for the private entity to maximize the net revenue from timber sales. That incentive would always produce a tension against the goals of supporting MPS and supplying fibre to the marketplace, with the contract being the primary tool to resolve that tension.

Some parties might not be as comfortable with the transparency of

Theme 3: Program delivery such that costs can be used for MPS

the sales data collection and generation under this model.

This model would clearly result in stand-alone cost accounting, and the overhead cost structure should be closely aligned with that of major licensees. Again, this model might lead to concerns around transparency of cost data, particularly where there was a profit incentive for the private entity to reduce costs.

Contracting and procurement terms and practices under this model should be the same as those of a major licensee.

Theme 4: Effective and High-performing Organization

The private entity would have complete flexibility to implement innovative financially-related improvements, subject to the terms of its contract, and to negotiate alternative working arrangements. Depending on the terms of the contract, there could be a considerable financial incentive for the private entity to explore these opportunities.

The private entity would incur significant ongoing operational costs, including: financial, labour relations and legal services. Due to it likely being smaller than MoFR, costs of some activities could well be higher than if BCTS remained within MoFR. Establishing and maintaining the contractual relationship would impose costs on both MoFR and the private entity.

4.6 Full privatization of BCTS and the resources supporting it

4.6.1 Description of the model

This model, full privatization of BCTS, is assumed to include the assets under the control and management of BCTS, including transfer of the ownership of the timber within the BCTS operating areas. The transfer of ownership of the timber could be as sale of the timber alone, timber and land, or by long term lease of the standing timber, as has been done in New Zealand. Any of these steps would raise significant public policy questions that are beyond the scope of this review.

The same three general considerations regarding shifting a function out of government that applied in the previous privatization model would again apply here.

As per the previous model, it would be possible to implement this model over just a portion of BCTS, such as a single Business Area, either as a pilot or over the long term, but it is difficult to see how this could occur and still maintain the overall integrity of the BCTS data set.

Under this model, the sale agreement would have to very clearly and carefully specify the expectations from the private company as they relate to the delivery of the BCTS mandate. Where the activities of the private entity were not constrained by the sale agreement, it would have complete freedom to operate in its own business interests, but one should expect conflict between the requirement to supply data that would support the MPS pricing system and the entity's desire to maximize profit on its investment in timber.

The *Labour Relations Code* outlines the “successorship” provisions when a business of government is transferred out of the public service to a private entity. Where “successorship” occurs, the terms of the existing collective agreements would apply unless and until those agreements are renegotiated by the private entity. These provisions would not include retention under the *Public Service Labour Relations Act* and employees would lose their public service status.

The existing collective agreements include restrictions on the privatization of government business or the transfer of it to an Alternative Service Delivery model.

4.6.2 Opportunities for improvement, and constraints on achieving them

Theme 1: Clear Goals and Objectives

The sales agreement would require clarity around the mandate for BCTS, would entrench that mandate, and would clearly establish the relationship with the MoFR.

Theme 2: Timber Sales Program designed to support MPS

The expectations of both parties as they relate to the generation of MPS data would need to be clearly and carefully articulated in the sales agreement due to the finality of such an agreement. If a sales agreement allowed for re-negotiation, such as process would be costly and cumbersome for both sides.

This model would effectively eliminate the influence of the MoFR, and government in general, on the timber sales program and operating areas on a day-to-day basis.

There would be a strong incentive for the private entity to maximize the net revenue from timber sales and other activities. That incentive would always produce a tension against the goals of supporting MPS and supplying fibre to the marketplace, with little provision, outside of the original sales agreement, to resolve that tension. Moreover, unless otherwise constrained, a private entity might choose to offer some of its timber in long term agreement to provide a stable cash flow to its investors, such as pension funds that may need a predictable income stream.

Some parties might not be as comfortable with the transparency of

Theme 3: Program delivery such that costs can be used for MPS

the sales and cost data collection and generation under this model, particularly if the ownership of the private entity was not completely arms-length from the forest industry. Ownership restrictions, due to conflict considerations, could reduce the value the Crown might receive on selling or leasing the timber to the investors.

This model would clearly result in stand-alone cost accounting, and an overhead cost structure closely aligned with that of a major licensee, as to the timber harvest related costs, but the costs associated with being the owner of the timber might make them less comparable than some of the other models. Again, this model might lead to concerns around the transparency of cost data used for pricing.

Contracting and procurement terms and practices under this model should be the same as those of a major licensee.

Theme 4: Effective and High-performing Organization

The private entity would have complete flexibility to implement innovative financially-related improvements, subject to the terms of its contract, and to negotiate alternative working arrangements. There would be complete financial incentive for the private entity to explore these opportunities.

The private entity would incur significant ongoing operational costs, including: financial, labour relations and legal services. Due to it likely being smaller than MoFR, costs of some activities could well be higher than if BCTS remained within MoFR, but possibly more comparable to industry's costs.

5. Comparison of Alternative Models

Section 4 has outlined several alternative structural models for BCTS, and compared them to the key characteristics and opportunities for improvement. As noted earlier, this paper has not attempted to identify or quantify the potential costs or other implications of moving to any of the alternative models. These costs could be considerable for some of the options explored here. Where the paper has flagged the costs to BCTS of attaining some of the key characteristics, it is also raising the question of how comparable are BCTS' current costs to those of a licensee.

There could also be considerable implications to the rest of the MoFR, both operationally and strategically, to some of these alternative models, and to the interests of clients served by both the MoFR and BCTS. There would also be some significant public policy questions to be resolved prior to moving to some of the alternatives.

The co-chairs will need to consider all of these points in arriving at final recommendations, as well as consider the relative importance of each of the key characteristics and how critical the structure is to their attainment, as not all characteristics are necessarily of equal importance.

This paper has been released to solicit input and suggestions on all of the above questions, and has been designed to provide the readers with information on the opportunities for improvement and potential alternative models without including any conclusions or recommendations. The co-chairs welcome review and comment around this information, and intend to consider this information, and all the comments received, in formulating their conclusions and recommendations. Where the comments expand on the implications of any of these potential changes, those implications will be considered in the final recommendations. The current, final opportunity for stakeholder review and submissions is critical to arriving at an informed decision.

Finally, some of the options discussed in this review are precluded from consideration as the terms of reference assume that BCTS will remain a function of government for the foreseeable future. However, the terms of reference do require the co-chairs to comment on the question of privatization over the longer term. Comment on this question is encouraged as well.

By October 15, 2006, after reviewing the input from interested parties and the feedback from the stakeholder workshop, the co-chairs will make final recommendations to the Minister. That final report, with its recommendations and associated rationales, will be posted to the BCTS public website.

Appendices

APPENDIX I	Context for Structural Review
APPENDIX II	Structural Review Process
APPENDIX III:	Linkage of MPS to BCTS
APPENDIX IV:	Can BCTS be strengthened by incorporating the principles of a forest trust?
APPENDIX V:	Submissions on the Discussion Paper on Key Characteristics

APPENDIX I

Context for this Structural Review

In 1995, the BC government decided to revise the focus of the existing Small Business Program within the Ministry of Forests, and examined a number of alternative structures that might accomplish that objective.

Between 1995 and today, the mandate of the Small Business Program evolved substantially into the current BC Timber Sales program that was established in 2003. During this period, the structure was modified somewhat, and was examined and reviewed a number of times.

This review will build on the information gathered previously.

In 2006, the BC Competition Council presented to the Premier the reports from its Forest Industry Advisory Committees and made a number of recommendations to the Premier, including one regarding delivery models for BCTS.

- The Wood Products Industry Advisory Committee recommended that government “*carry out a third party independent review of BCTS in collaboration with the recently appointed new CEO (and) consider if a market responsive timber pricing system can be achieved through the BCTS, or a similar organization with a corporatized structure, or recommend if a form of privatization should be considered.*”
- In turn, the Competition Council recommended that government take “*steps to reduce and eventually eliminate its role as operator and seller of timber produced from the Crown timber supply.*”

The alternative structures that have been examined previously fall along a spectrum from a program fully integrated within the MoFR organization (the old SBFEP model) to a program fully arms-length from government, delivered by the private sector.

APPENDIX II

Structural Review Process

At issue is the question of whether a different type of structure for BCTS would better address the elements of its mandate. The objective is not change for change's sake, but to determine if there is a "business case" for change. That is, if change will allow BCTS to better fulfill its mandate. Accordingly, the possibilities for change range from improving the efficiency and effectiveness of BCTS within its current structure, through to an entirely new structure.

Feedback from stakeholders has identified that there is not a universal understanding of the term "BCTS structure", in the context of what this structural review will be examining. The fundamental purpose of this review is to answer the question: *What is the best TYPE of organizational structure for BCTS, given its mandate?* As a result of the review, recommendations will be made as to whether BCTS should remain a division within the MoFR, a special operating agency, a Crown Corporation, a private company, etc. In the context of this review, "structural review" is synonymous with examining the governance model for BCTS, or examining alternative structural models for BCTS.

This review will not include an examination of the detailed internal workings and relationships of BCTS, or make recommendations on issues such as office configurations, whether BCTS should have a Regional presence in addition to its Headquarters and its Business Offices, the desired degree of consistency between offices, etc. These latter issues have been, and will continue to be, addressed through periodic internal organizational reviews of BCTS.

As noted earlier, the procedures for this structural review are detailed in the Terms of Reference. This review started from the documented mandate of the existing BCTS program, and then identified the critical organizational features or characteristics that could affect the attainment of that mandate.

Once the key characteristics were identified, the potential for change to the BCTS structural model and the opportunities for improvement within any structure were considered. The current and alternative structures were evaluated in light of those characteristics and opportunities, and of the implications of moving to any alternative.

This information has been compiled into this Discussion Paper which has been posted on the website and will be taken back to the stakeholders' group for discussion in a workshop later in September, 2006. The co-chairs will consider this information, and all the comments received, in formulating their conclusions and recommendations.

By October 15, 2006, after reviewing the input from interested parties and the feedback from the workshop, the co-chairs will make final recommendations to the Minister. This timeline has been extended somewhat from that in the Terms of Reference to facilitate review and comment.

Stakeholder Involvement in the Structural Review

The stakeholder groups represented on the Timber Sales Advisory Council (TSAC) are the primary non-government contacts for this review. As BCTS program participants and ongoing advisors, the TSAC members are already well familiar with the strengths and weaknesses of the present BCTS model, and well positioned to provide input into this review.

Representatives from BCTS, and from the MoFR Operations Division, are engaged in this review alongside the TSAC stakeholders, and other Divisions of the MoFR have been consulted throughout.

APPENDIX III

Linkage of MPS to BCTS

The Mission of BCTS is to market Crown timber to establish market price and capture the value of the asset for the public. The market prices that BCTS generates are used by MoFR Revenue Branch and Economics and Trade Branch to produce equations (one for the coast and one for the interior) that predict the estimated winning bid price for timber sold at auction. That estimated winning bid price may be used as a reference to set the upset price on future BCTS sales¹, and is used, with adjustments², to set the stumpage price for coniferous timber that is not auctioned by BCTS, i.e., timber harvested on major tenures.

The current MPS equations are multi-variable regression equations that employ 17 different variables in the interior and 16 on the coast. These variables relate to product value (log prices on the coast, and lumber prices and recovery factors in the interior), timber cruise information (volume, area, species, timber quality and condition), site conditions (slope, required logging methods), location (zone or region, transportation distances or times), and development costs (in-block roads, etc.) borne by the successful bidder, and, the number of bidders. Variables used in the equation have changed over time, so BCTS may be required to record and report more information than is required by the current equations.

MPS is based on data from sales of standing timber that are open to competitive bidding, but BCTS also auctions some timber that has been logged and decked, and is responsible for the administration of some sales that have not been sold at auction, and others where the competition is limited to certain types of operators. It must therefore be able to identify the type of sale in its records.

In order to derive MPS equations that are statistically significant and can be applied to conditions that are experienced by major tenure holders, the BCTS sales must adequately sample across the range of timber and logging conditions that the major tenure holders encounter. There is no explicit requirement for MPS that BCTS also offer timber throughout the year and in all market cycles, but continuity is important for the credibility of both the data, and of BCTS, as a supplier of timber to industry.

BCTS' sales data needs to be both credible and robust. To qualify as "robust", the important issue is that the timber sales volume should be close to the 20% of the harvest that government has set as

¹ Upset prices represent the minimum price that the vendor is willing to accept. An upset price of 70% of the expected winning bid is commonly used to minimize the risk and expense of not receiving bids through setting the minimum price too high. Where there is reason to expect that even 70% of expected winning bid may prove too high, the upset may be set at the variable cost of preparing the sale, or even at the statutory minimum rate of \$0.25 per m3.

² The expected winning bid is the price that a buyer would be expected pay for timber in a BCTS sale, where BCTS does the preparatory work (timber cruising, road layout and construction, obtaining permits, etc.) and is responsible for silviculture after harvest. Major tenure holders (non-auction timber) are responsible for these costs on their harvest areas so the amount that they pay for the timber they harvest is reduced by the amount of these obligations. There are also other adjustments for costs that are not, or are rarely, incurred with auctioned timber (such as barging or towing on interior waterways, or private railways on the coast) and therefore are estimated rather than incorporated as variables in the equation.

the objective for a credible reference point. That is, experts have concluded that basing MPS on the results of auctioning 20% of the harvest volume will provide an accurate estimate of the value of the remaining 80% of the harvest.

The MPS system must adjust the BCTS sales data for the costs borne by major tenure holders on their harvest areas, but borne by BCTS instead of the bidder on BCTS sales. For the purpose of MPS, the MoFR either could solely use BCTS program costs, could blend both BCTS and licensee costs, or could use BCTS costs as a benchmark only to compare against the licensee costs that are used in the MPS system. The issues in making this choice are in knowing if BCTS costs are analogous to those licensees bear and in ensuring that reporting systems are comparable so that when it is necessary to use licensee costs, MoFR is confident that there is no overlapping or duplication of costs in the relevant categories. BCTS must ensure that its accounting system is capable of both determining which costs are relevant to its competitive timber sales program (as opposed to Category 2 sales) and of categorizing them in such fashion that they can be compared with the corresponding costs of industry.

As the method for pricing timber harvested on major tenures (i.e., not sold by competitive bid), MPS can be expected to be under considerable scrutiny during the softwood lumber disputes with the US. BCTS data collection and record-keeping must therefore be robust enough to withstand US verification, in addition to audit by the Auditor General, since it provides the basis for pricing the other 80% of the harvest not sold through BCTS.

APPENDIX IV

Could BCTS be strengthened by incorporating the principles of a forest trust?

This Review discussion has raised the question if there is a need for a stronger business driver behind BCTS. The clarification and strengthening of the mandate statements, and other improvements noted in this report, could help achieve this. An alternative, potentially more durable, mechanism has also been suggested, based on the US state “forest trusts”.

Those forest trusts were originally developed to fund local government activities, such as schools, when lands were originally granted from the federal government to the states on accession.

While these were originally conceived as revenue sources, they also give local communities a stronger interest in land use decisions and timber management practices. Local communities whose revenues depend both on proceeds from the sale of the timber, and from economic activity related to its harvest and processing, provide their perspective on the optimum revenue stream.

Incorporation of the trust concepts into the mandate of BCTS could act as a business driver for BCTS, could allow the transfer of BCTS revenue directly to forest dependent communities, and could serve as a tool to ensure against erosion of BCTS mandate and BCTS operating areas. A BCTS version of a forest trust:

- would have to be established in such a way that revenue generation was secondary to MPS support and supplying fibre to market
- would not require a new structural model, but could be applied within any of alternative models that retain BCTS within government.

BCTS would be accountable back to the local community interests, as well as to the broader provincial interests.

The creation of a BCTS forest trust would raise some significant public policy questions that are beyond the scope of this Terms of Reference; including whether it is appropriate to divert revenue from provincial funds, who would be the beneficiary of the revenue, and how that revenue would be distributed.

APPENDIX V

**Submissions on the *Discussion Paper on the Key Characteristics
of an Effective, Efficient BCTS Organization*,**

Received by August 31, 2006

Submissions are contained in a separate PDF file.