

# Forestry Tasmania's financial performance and use of Tasmanian Community Forest Agreement (TCFA) funds

## Background

The TCFA was negotiated between the Commonwealth (CW) and Tasmanian (TG) governments in the wake of John Howard's promise to the forestry industry during the 2004 election campaign.

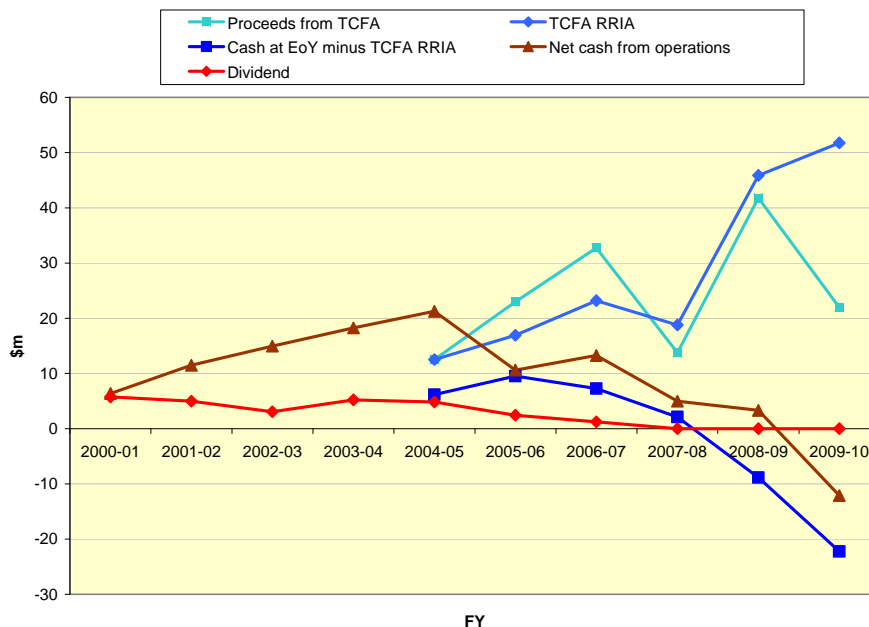
The total value of funds available under the TCFA was \$252.2m.

The majority of this money was allocated through two channels

- a) Industry support programs which provided grants to forestry businesses  
Total value \$56m (22% of the total TCFA funding)
- b) Funding to Forestry Tasmania (FT) for a range of programs, including developing alternatives to clear felling (value \$13.1m) and Intensive Forest Management (value \$115m)  
The total value of TCFA funds acknowledged by FT as allocated to programs managed by FT was \$140.14m<sup>1</sup> (56% of the total TCFA funding).
- c) In fact, according to FT's Annual Financial Reports on which this analysis is based, FT received a total of **\$145.727m** of TCFA funds (recorded as 'Proceeds from TCFA' in the Cash Flow statements in FT Financial Reports 2004-05 to 2009-10)

## 1. Financial performance data over period of TCFA

Figure 1. TCFA funds and Operations/Dividend



### Notes on data sources:

Proceeds from TCFA: from FT Financial Statements, Cash Flow Statement

<sup>1</sup> Information contained in RTI released by FT on 23 December 2010 available at [http://www.forestrytas.com.au/uploads/File/pdf/rti2010/rti\\_10\\_13\\_mars.pdf](http://www.forestrytas.com.au/uploads/File/pdf/rti2010/rti_10_13_mars.pdf)

*TCFA RRIA (Revenue Received in Advance*: ie unspent TCFA funds): from FT Financial Statements, Balance Sheet and Note 23 to 2009-10 Financial report  
*Cash at EoY* (End of Year): from FT Financial Statements, Cash Flow Statement  
*Net Cash from Operations*: from FT Financial Statements, Cash Flow Statement  
*Dividend*: from FT Financial Statements and Tasmanian Auditor General's Annual Reports on FT, 2009 and 2010<sup>2</sup>

### **Analysis:**

As Figure 1 demonstrates

Since the inception of TCFA funding in 2004-05,

- i) FT's net cash from operations has nose-dived, reversing a previous upward trend
- ii) FT's dividend to the state (and people) of Tasmania has declined to zero for the past three financial years
- iii) Despite the injection of over \$145m in TCFA funds over this 5 year period, there has been an increase in the amount of TCFA funds not spent (recorded as Revenue Received in Advance [RRIA]) which reached over \$51m in 2009-10.
- iv) Under the TCFA, this RRIA must be spent on the purposes for which it was allocated – mainly for plantation establishment and maintenance [Intensive Forest Management]. However, the cash reserves (and equity, see figure 3) from which this future financial commitment must be met, have nosedived along with the net cash from operations (Cash at EoY minus RRIA in figure 1)

### **Conclusion:**

- despite an injection of over \$145.7m of public funds over the past five years, FT's financial performance has degenerated at an alarming rate.
- In this period, FT has paid only \$3.7m in dividends and \$3.5m in tax – a total of \$7.2m.
- **This represents a cost to the community of \$138.5 m in 5 years.**

Furthermore

- As the Auditor General noted in his 2010 report on FT, 'there has not been any return to the government over the period of review [2006-07 to 2009-10]' apart from a dividend of \$1.3m in 2006-07<sup>3</sup>
- The Auditor General also stated that 'we have concerns over Forestry's longer term liquidity'<sup>4</sup>
- The state and people of Tasmania are bearing this loss at a time when the state budget needs to find savings of over \$430m.

## **2. Equity performance**

The ability of an enterprise to meet its liabilities [Revenue Received in Advance is treated as a liability on the balance sheet] depend both on its cash flow and the total equity [assets] of the enterprise.

FT's equity performance is shown in Figure 2

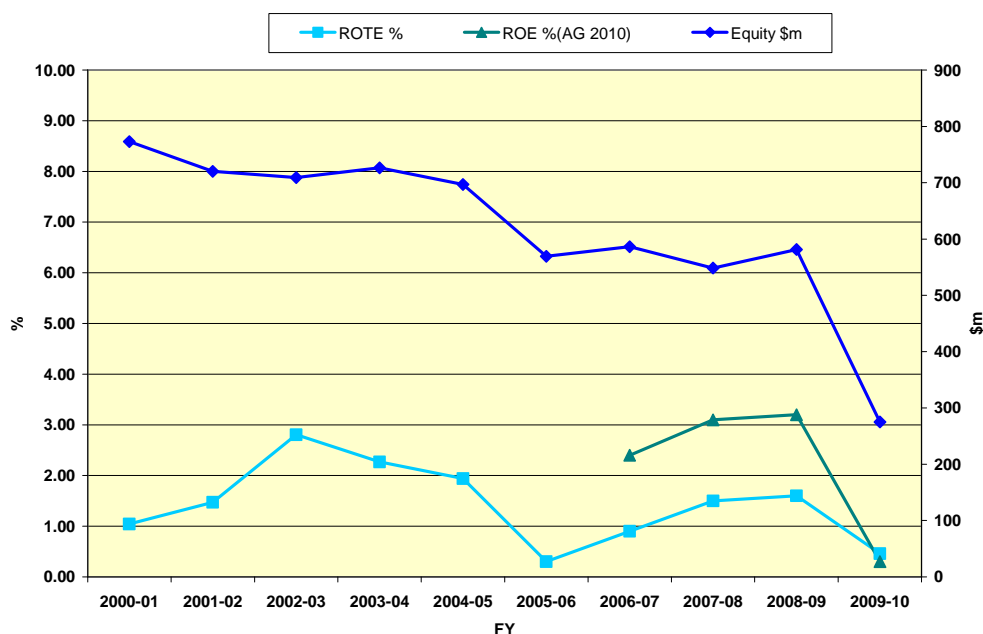
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<sup>2</sup> *Report Of The Auditor-General, No. 2 of 2009*, Volume Two Government Businesses, Superannuation Funds and Other State Entities November 2009: *Report Of The Auditor-General, No. 2 of 2010*, Volume Three, Government Businesses, Superannuation Funds and Other State Entities November 2010.

<sup>3</sup> *Report Of The Auditor-General, No. 2 of 2010*, Volume Three, Government Businesses, Superannuation Funds and Other State Entities November 2010, p.46

<sup>4</sup> *ibid*

**Figure 2 ROTE, ROE and Equity**



**Notes on data sources:**

*Equity:* from FT Financial Statements

*ROTE [Return On Total Equity],* this is a measure of the ratio of profit [before adjustments] to equity: from FT Financial Statements and Tasmanian Auditor General's Annual Reports on FT, 2009 and 2010

*ROE [Return on Equity]* defined by Tasmanian Auditor General's Annual Report 2010 as ' based on operating result [profit] before costs attributable to non commercial zones [CSOs], tax, asset and superannuation adjustments': Tasmanian Auditor General's Annual Report 2010<sup>5</sup>

**Analysis**

- i) As Figure 2 demonstrates, FT's equity has been declining for the past decade; and more sharply in the past five year period of its receipt of TCFA funding.
- ii) The significant drop in equity in 2009-10 is due to the revaluation downwards of FT's land assets by \$217.198m and its forest estate by \$177.768, a total impairment of \$396m.
- iii) Nonetheless, both ROTE and ROE declined sharply in 2009-10, indicating an even sharper decline in profit before adjustments, of over \$17m (from \$18.3m to only \$1.3m) or 93% from 2008-09.

**Conclusion**

- Such a sharp reduction in both equity, and return on equity, means that the ability of FT to meet its TCFA liabilities is correspondingly reduced.

**3. Mismanagement of TCFA funds by FT**

**3.1 Transparency of accounting in Financial Statements**

**Analysis**

- i) In FT financial statements, TCFA grants received each year are recorded in the Cash flow statement under the line item "Proceeds from TCFA"
- ii) Expenditure of TCFA grants in that financial year is recorded in the Income statement (Profit and Loss) as both operating income and capital grant income.

<sup>5</sup> Op cit p. 45

- iii) Total TCFA grants received over the period 2004-05 to 2009-10 amounted to **\$145.727m**, and total grants spent to **\$82.551m**, giving a difference of **\$63.176m** of TCFA grants unspent.
- iv) This is at variance with the unspent TCFA funds (RRIA) specified in Note 23 of 2010 Financial Statements of **\$51.753m** at 30 June 2010.

### **Conclusion**

- FT's recording of TCFA grant income and expenditure in its annual Financial Statements is inadequate to enable a clear understanding of how these funds have been managed, Since the TCFA was a specifically mandated joint CW/TG program based on an agreement signed by the Prime Minister and Premier, full transparency in accounting for funds should be mandatory.

## **3.2 Variance between Right To Information (RTI) data and Financial Statements**

### **Analysis**

- i) Two sets of data released by FT under RTI legislation to Malcolm Mars and Senator Christine Milne<sup>6</sup> provide more detailed information about the management of TCFA programs by FT, including the major program for which FT received TCFA funding, the Intensive Forest Management (IFM) program worth \$115m out of total TCFA funds of \$140.14m.
- ii) The data derived from Mars RTI and Milne RTI present a far lower figure of unspent TCFA funds (\$22.01m) than that given in Note 23 of FT's 2010 audited financial statements (\$51.753m).
- iii) The difference of \$29m can be (largely) accounted for by the assumption in the RTI data that the whole cost of plantation establishment (\$3,500/ha) and ongoing management over the following 15 years (\$2,500/ha), has been spent by FT in the first 5 years of the IFM program
- iv) However this cannot, practically speaking, be the case
- v) The Tasmanian Auditor General in his 2010 report states that 'As at 30 June 2010 there remains \$15.000m of works to be acquitted against the TCFA intensive forest management program (IFM).<sup>7</sup> This implies that the funds for ongoing plantation management for the IFM program have been allocated, even though not spent. If this is case, it begs the question of why the total funds for the IFM have not been similarly 'acquitted'; since **all** TCFA funding was **allocated** to specific programs.
- vi) As a matter of detail, Mars RTI shows, of the total TCFA funds received by FT, \$22.01m remains to be 'acquitted'.

### **Conclusion**

- This raises questions about the validity and accuracy of information provided by FT in response to RTI requests
- When the RTI data was published in the media, FT was unable to give a convincing account of how and when even the smaller figure of \$22m would be spent on/allocated to/acquitted for TCFA programs
- This leaves open to question the future disbursement of the much larger TCFA liability of \$52m noted in the 2010 FT Financial Statements

## **3.3 Unexplained substitution of financial data on TCFA funding received by FT in 2009-10**

### **Analysis**

- i) FT initially published its 2009-10 Financial Statements on its website in September 2010.

<sup>6</sup> For Mars RTI see [http://www.forestrytas.com.au/uploads/File/pdf/rti2010/rti\\_10\\_13\\_mars.pdf](http://www.forestrytas.com.au/uploads/File/pdf/rti2010/rti_10_13_mars.pdf)

For Milne RTI see [http://www.forestrytas.com.au/uploads/File/pdf/rti2010/rti\\_10\\_12\\_milne.pdf](http://www.forestrytas.com.au/uploads/File/pdf/rti2010/rti_10_12_milne.pdf)

<sup>7</sup> Op cit, p.43

- In the Cash Flow statements the “Capital proceeds from the Tasmanian Community Forestry Agreement” were given as **\$9.915 m**
- ii) It was prefaced by a Report of the Auditor General dated 1 August 2010 which endorsed to the Financial Statements as ‘presenting fairly the financial position of Forestry Tasmania’
  - iii) FT subsequently published its 2010 Stewardship Report which contains the 2010 Financial Statements. In the Cash Flow statements the “Capital proceeds from the Tasmanian Community Forestry Agreement” were given as **\$21.966 m**
  - iv) the bottom line of the Cash Flow statement “Cash at end of the year” was unchanged at \$29.546m
  - v) to achieve this reconciliation the line item “Payments for property, plant and equipment” was adjusted from (\$2.231m) to (\$14.282m)

#### **Conclusion**

- FT has materially altered the content of its 2010 Financial Statements which had already been approved and audited by the Auditor General as “presenting fairly...their performance [and] cash flows...”. This alteration invalidates the Auditor General’s Opinion and requires explanation.

### **3.4 Demonstrated misuse of TCFA funds**

#### **Analysis**

- i) The 2009 Auditor General’s Report on FT as a GBE, contains a table<sup>8</sup> reconciling ‘the TCFA RRIA to the TCFA Cash held as at 30 June 2009’.
- ii) This table shows that in the estimate of the Auditor General, ‘funds drawn down by Forestry from TCFA funds to meet other day to day operating expenses’ amounted to \$2.965m
- iii) The Auditor General further comments ‘As its cash position has become tighter, Forestry has utilised these funds on a short terms basis...In the absence of TCFA funds, Forestry would need the flexibility provided by a working overdraft account’

#### **Conclusion**

- It has already been demonstrated by the Auditor General that FT has misused TCFA funds
- All the additional instances of mismanagement outlined above support the conclusion that FT has not fulfilled the requirements of transparency and accuracy in its accounting for TCFA funds

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<sup>8</sup> Op cit, p.19