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planning and management of forests at a broad landscape level, to ensure that management activities take into account the range of forest values and the interdependence of these values.

Furthermore, under current legislation, FT carries responsibility for the exclusive management and control of all State forests, and all forest products on State forests (*Forestry Act*, Section 8(1)(c)). This means that FT has clear, primary accountability for managing all State forests.

These strengths of the existing model need to be recognised, notwithstanding the fact that its current financial position is not sustainable for a GBE operating in Tasmania. FT's financial performance over the past 15 years has been mixed, and over the past two years it has been poor. The Stage 1 report drew upon other recent reviews, by the Tasmanian Auditor-General and the Legislative Council's Government Administration Committee 'A', to comment on historical financial performance, and the 'strategic shifts' in the Tasmanian forest industry that have significantly impacted on results over the past two years.

The weaknesses of this model relate primarily to:

- The capacity to separately account for and report on the resources allocated to commercial wood production functions and other forest management functions; these functions tend to be provided through integrated service delivery at the corporate and regional/district level, which can constrain reporting and monitoring of the financial performance across these levels of delivery; and
- The requirement for the integrated entity to undertake a broad range of functions, and to maintain and develop a broad range of expertise and capabilities to support these functions, can lead to a lack of clear focus on primary objectives and core business capabilities.

The proposed enhancements incorporated in Option 1 would be expected to address these weaknesses and improve the model by providing greater clarity of focus and reporting separately on the costs of managing commercial and non-commercial functions of the business.

### 4.5 Option 2 – Separation of commercial functions

Option 2 encompasses the separation of the commercial functions relating to wood production from the other, non-commercial functions that are currently undertaken by FT. It is proposed that these functions would be managed by two separate entities: Entity 1, operating as a Government business entity with a specific focus on commercial functions; and Entity 2, a Government agency separately responsible for other forest management functions.

#### *Delineation of commercial functions*

The definition and delineation of commercial functions of forest management is not simple, particularly for public native forests on Crown land. Good forest management balances the requirements for maintaining or enhancing ecological, social and economic values, and there can be a high level of interdependence between these values. This means that an integrated approach may be required to coordinate and manage the commercial and non-commercial activities across the estate.

Furthermore, it can be challenging to separate those forest management functions that may not be profitable, but are related to commercial enterprise or to industry development over the longer term. Maintaining research and development is an example of this type of function. Other examples include:

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- FT's management and production of specialty timbers, from integrated harvesting operations or from dedicated Special Timber reserves. This activity is not profitable for FT but does support the specialty timber producers and provides for community economic benefit; and
- similarly, FT devotes some considerable time to providing access for apiarists to work and collect honey from across State forests. This activity is not profitable for FT, but does provide community benefit and social values associated with this activity.

Notwithstanding these considerations, the capacity to separate commercial and non-commercial functions is important, for the purpose of reporting on the resources required to maintain these functions and the outputs generated. The Stage 1 report noted that in all jurisdictions where there has been separation of commercial functions from regulatory and policy functions, there have been observable improvements in the transparency of performance within the commercial functions of forest management.

Improvements in transparency and accountability can, in turn, provide a basis for enhanced focus on key performance indicators and improved efficiency against these indicators.

Relevant examples of native forest management arrangements based on a separation of commercial and non-commercial functions can be seen in Victoria and in WA. The Stage 1 report provided cross-jurisdictional perspectives from these States, and outlined the respective roles of VicForests and the Department of Sustainability and Environment (DSE) in Victoria, and the FFPC and the Department of Environment and Conservation (DEC) in WA.

For the purpose of this review, commercial functions are defined as follows:

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*Commercial functions are those functions that relate specifically to the management, harvesting, sales and marketing, and regeneration of timber resources from State forests that are designated as suitable and available for wood production. They include planning, reporting and administrative functions specifically relating to these roles of harvesting, sales and regeneration of forests. In this context, they include management of commercial plantations, and the production of specialty timbers from integrated harvesting operations or from dedicated Special Timber reserves.*

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Other functions, broadly defined as non-commercial functions for the purpose of this review, include the stewardship and long-term management of State forests and its ecological and social functions. They also include market development functions that provide for a broader industry benefit. In addition, they include functions that may be commercial in nature but are not related specifically to management of timber resources for wood production, for example, managing access to public native forests for commercial activities such as extractive industries and bee-keeping.

In broad terms, the roles of VicForests in Victoria and FPC in WA would encompass the delivery of commercial functions as defined for this review, and the roles of DSE and DEC would encompass the provision of stewardship and other functions defined for this review. There are, however, some exceptions and inconsistencies across the jurisdictions.

### **Assignment of roles and transfer processes**

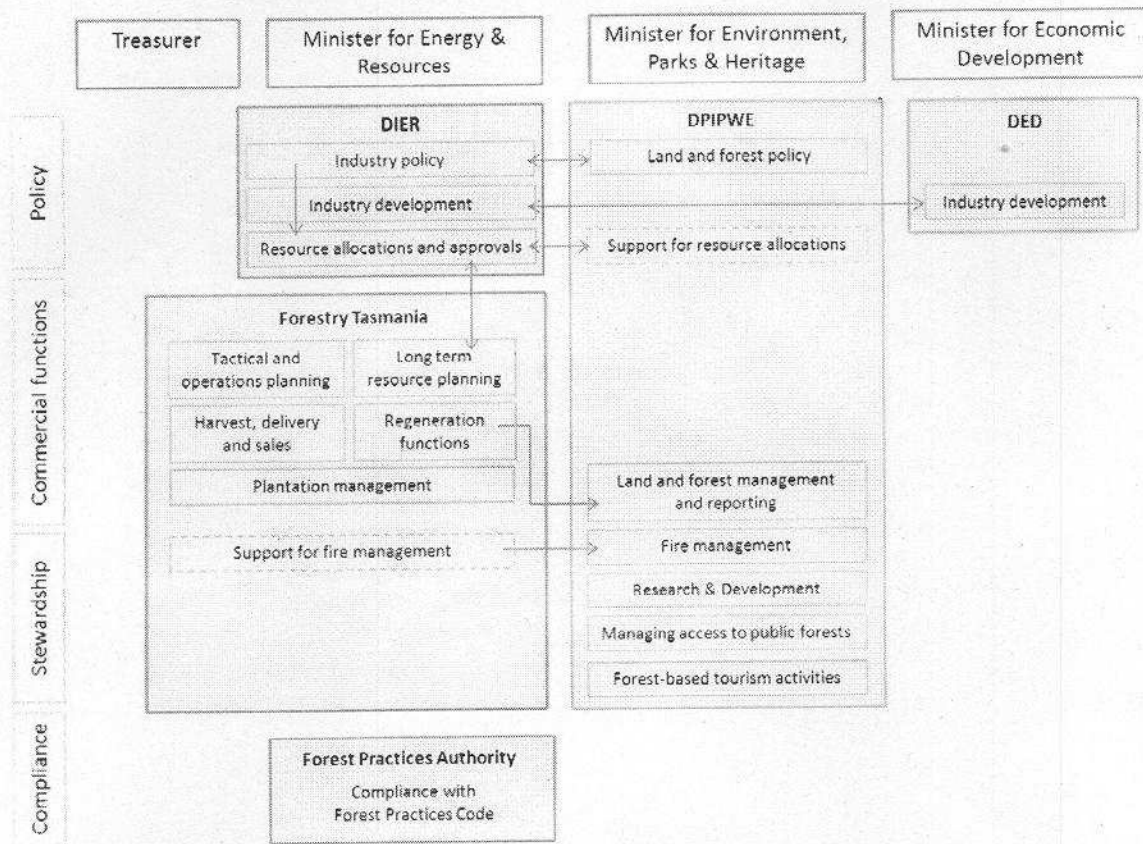
For the purpose of this review, the delineation of commercial and non-commercial functions under Option 2 is based broadly on the assignment of functions in Victoria and WA. As such:

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- Entity 1 (currently FT) would be given the charter of focusing on the commercial functions of operational planning for wood production; managing marketing and sales for a range of wood products; managing harvest and transport operations; and, managing the regeneration of harvested coupes. This role would also encompass long-term resource planning for the purpose of sustainable yield determinations. However, this long term planning function would be managed with oversight and ultimate approval of a separate Government agency;
- Entity 2, a Government agency (notionally DPIPWE), would become responsible for the stewardship and long-term management of State forests and its ecological and social values. This management function would encompass responsibility for forest zoning classifications and incorporate support for Government processes to allocate production forests to Entity 1. However, the technical capabilities to conduct long-term resource planning and sustainable yield determinations would sit within Entity 1, providing for integration with tactical and operational wood flow planning; and
- DIER retains the functions as noted in the enhancements incorporated into Option 1.

An outline of Option 2 with the proposed allocation of management functions to separate entities is presented in Figure 4-4. The basis for this allocation of functions is discussed below.

Figure 4-4 Schematic of Option 2 allocation of management functions for State forests



Source: URS

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With this separation of functions, there would need to be clear protocols established between the entities for the allocation of production forests, rights of access for timber harvesting and regeneration functions, and the clear assignment of roles, responsibilities and approval processes.

In this regard, the management arrangements in Victoria and WA differ in some respects. Key features of these arrangements include the following:

- In Victoria, there is a formal vesting process established by and conducted in accordance with specific legislation (*Sustainable Forests (Timber) Act 2004*), under which areas of production forest are allocated and released by DSE to VicForests for a 15 year period.
  - When an Allocation Order is in place and Timber Release Plans are approved (by the Secretary of DSE), designated coupe areas are vested and transferred as property rights to VicForests, with financial accounting that recognises balance sheet transfers.
  - VicForests then holds the rights to these forest coupe areas until such time as it has harvested and successfully regenerated the areas, whereupon they are transferred back to DSE, subject to approval processes for acceptable levels of regeneration.
- In WA, there is no formal vesting process in place, but FPC does recognise and report a financial value on its access rights to forest areas designated under the Forest Management Plan (FMP):
  - the Conservation Commission prepares the 10-year FMP, which provides the basis for resource allocation over the 10-year period. FPC develops harvest plans aligned with these resource allocations, which are submitted for approval by the DEC.
  - DEC retains ownership of the production forest areas and this is reflected on balance sheet reporting. FPC recognises the value of an access right, which is derived from the estimated value of future log harvests and sales from the designated areas.
  - Under the FMP framework, FPC undertakes commercial harvesting and manages regeneration activities, which may involve procuring services from DEC for site regeneration works. FPC also engages DEC to complete various other services, including forest planning and modelling to support the short-term and longer-term planning for commercial operations.

These examples provide cross-jurisdictional perspectives for the further development of Option 2. The specific working arrangements under Option 2 and the mechanics of the assignment of roles between Entity 1 and Entity 2 would need to be determined in Stage 3. This determination should incorporate guidance from Government on reporting standards and requirements for Government business entities; consultation with key stakeholders across Government; and consideration of the capabilities of the respective parties.

Key principles and requirements that should be addressed and specifically incorporated in the further development of Option 2 are:

- *A clear policy framework and regulatory arrangements for the designation of specific roles.* This would need to consider the most appropriate process for determining forest resource allocations and the working forest areas that are available for timber harvesting – either through a mechanism such as the Allocation Order and Timber Release Plan arrangement, or a rolling Forest Management Plan, or an alternative process that would support efficient and effective outcomes;
- *Clear processes for the formal recognition of the assignment of roles, and acceptance by each entity respectively to carry responsibility and manage specific roles, e.g.*

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- the process by which Entity 2 (Government agency) assigns rights to Entity 1 to undertake commercial timber harvesting operations in designated forest areas; and
- the process and commercial transactions between the entities to manage capital costs of establishing forest roads and operating costs for maintaining the road network over time, recognising the network will be used for a range of commercial and non-commercial functions.
- *Clear processes for the formal recognition of the completion of tasks or services, e.g.*
  - the process by which Entity 1, Entity 2 and DIER would engage to determine and confirm the basis for a regular resource outlook to industry and other stakeholders, and the development of long-term wood supply agreements with Entity 1's industry customers;
  - the process by which Entity 2 recognises that Entity 1 has successfully regenerated forest areas following harvesting operations, and how Entity 2 formally completes this function; and
  - the process by which Entity 1 and Entity 2 would engage and work cooperatively to ensure fire prevention and suppression capacity is maintained to minimise the adverse impacts of bushfires on timber resources and other values. Working arrangements have been developed in other states where there are separate entities responsible for managing State forest assets, and these examples provide cross-jurisdictional perspectives for further development of this option.
- *Consistent financial reporting across Government entities on public forest assets, e.g.*
  - principles and processes to ensure the recognition by one entity of forest asset valuations or property rights is consistent with the other entity's recognition of these assets or rights, particularly where they are or may be vested or otherwise transferred between the entities.
- *Appropriate scope for flexibility in the working arrangements, to accommodate material changes arising, in recognition of the dependency that Entity 1 and Entity 2 have on the other to maintain efficient operations, and in so doing, support a competitive and sustainable forest industry, e.g.*
  - processes for responding to significant perturbations in wood flows caused by fire or disease;
  - processes for managing changes in Government policy or significant shifts in key markets.

In this context, the key features of each entity under Option 2 are set out in Table 4-3.

**Table 4-3 Option 2 - Key features of the business model**

| Features                             | Entity 1 (GBE)  | Entity 2 (DPIPWE)   |
|--------------------------------------|---|---|
| <i>Responsibility</i>                | <ul style="list-style-type: none"> <li>• Commercial wood production within allocated areas of State forests</li> </ul>  | <ul style="list-style-type: none"> <li>• Stewardship and long-term management of State forests</li> </ul>   |
| <i>Governance arrangements</i>       | <ul style="list-style-type: none"> <li>• Operates as a GBE governed by a Board of Directors</li> </ul>  | <ul style="list-style-type: none"> <li>• Management within service/ division of existing agency (e.g. DPIPWE), reporting through the Secretary of an agency</li> <li>• Clear suite of reporting, responsibility and accountability frameworks to ensure efficient forest management outcomes</li> </ul> |
| <i>State forest under management</i> | <ul style="list-style-type: none"> <li>• Temporary management of harvesting/regeneration areas</li> <li>• Management and utilisation of the hardwood plantation estate</li> </ul> | <ul style="list-style-type: none"> <li>• 1.5 million ha in addition to non-State forest lands already under management</li> </ul>   |

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| Features                  | Entity 1 (GBE)   | Entity 2 (DPIPWE)  |
|---------------------------|--|--|
| Wood production           | <ul style="list-style-type: none"> <li>In accordance with existing supply contracts, subject to any TFIGA outcomes</li> </ul>  | <ul style="list-style-type: none"> <li>Nil</li> </ul>  |
| Commercial activities     | <ul style="list-style-type: none"> <li>Manages long-term resource planning for sustainable yield determinations<br/><i>note: approval for sustainable yield is provided by a separate agency</i></li> <li>Provides regular resource outlooks to industry and other stakeholders</li> <li>Develops forest practice plans</li> <li>Manages sales and marketing for domestic and export products</li> <li>Manages road construction and maintenance for harvest operations</li> <li>Manages harvest and delivery functions</li> <li>Regenerates harvested coupes</li> </ul> | <ul style="list-style-type: none"> <li>Supports sustainable yield determinations and resource allocations</li> </ul>   |
| Non-commercial activities | <ul style="list-style-type: none"> <li>No non-commercial activities undertaken without specific CSO</li> <li>Provides support to Entity 2 for fire management, including fire suppression response and fire prevention activities</li> </ul>   | <ul style="list-style-type: none"> <li>Manages forests in accordance with approved management plans</li> <li>Manages forest value conservation, e.g.               <ul style="list-style-type: none"> <li>— habitat management</li> <li>— weed, pest and disease management</li> </ul> </li> <li>Fire management e.g.               <ul style="list-style-type: none"> <li>— fire suppression response</li> <li>— fire prevention activities</li> </ul> </li> <li>Public access</li> <li>State-wide coordination of forest-based tourism across public land</li> </ul> |
| Forest regulations        | <ul style="list-style-type: none"> <li>Forest Practices Authority, as per the Forest Practices Code</li> </ul>   | <ul style="list-style-type: none"> <li>Forest Practices Authority, as per the Forest Practices Code</li> </ul>   |
| Forest policy functions   | <ul style="list-style-type: none"> <li>Provides support to Entity 2 for State-wide policy functions, for example:               <ul style="list-style-type: none"> <li>— monitoring and reporting on sustainable forest management indicators</li> <li>— third party certification</li> </ul> </li> </ul>  | <ul style="list-style-type: none"> <li>Responsible for land and forest policy development, including for example:               <ul style="list-style-type: none"> <li>— monitoring and reporting on sustainable forest management indicators</li> <li>— third party forest management certification</li> </ul> </li> </ul>  |
| Industry policy functions | <ul style="list-style-type: none"> <li>Support for separate agency responsible for industry policy functions, including long term planning inputs to resource allocations and approvals</li> </ul>   | <ul style="list-style-type: none"> <li>Support for separate agency responsible for industry policy functions</li> </ul>  |

Source: URS

### Strengths and weaknesses of this option

Stage 1 outlined the relative strengths and weaknesses of alternative models, including Option 2. The strengths relate primarily to:

- the scope to increase the focus on commercial functions and thereby maximise value from commercial operations – efficiency-based cost reductions may provide the most significant opportunities for performance improvement; there may also be scope to increase focus on maximising revenue through optimal resource allocation and market development; and

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- the scope to improve clarity of purpose and transparency, through separation of these functions and regular reporting on this commercial remit.

The weaknesses of this model relate primarily to:

- the costs of managing non-commercial functions that are not directly offset by net revenues from commercial functions, as these costs would need to be funded from alternative sources;
- as non-commercial functions are incorporated within a larger entity, the transparency of these functions – notably their effectiveness and costs – could be reduced unless specifically addressed and regularly reinforced; and
- the need for timely, efficient and accountable processes for managing a range of functions on State forests, and between responsible entities.

This last aspect relates not only to commercial timber production but also the maintenance of a broader range of ecological, social and economic values. For example, this includes ensuring fire prevention and suppression capacity is maintained to minimise the adverse impacts of bushfires on timber resources and other values.

In this regard, the assessment of Option 2 is based on the premise that the total numbers of staff FTEs under Option 1 can be allocated across two separate entities (Entity 1 and Entity 2) and maintain the same level of fire prevention and suppression capacity. This is based on the expectation that efficient working arrangements and management processes can be established between the two entities, with no additional capacity requirements. In this regard, it should be noted that:

- Tasmania's capacity to respond to forest fire threats across public land currently comprises inter-agency protocols between three separate agencies (i.e. Tasmanian Fire Service, DPIPWE and FT); and
- Similarly, working arrangements have been established in other states, notably in WA and Victoria, where separate entities responsible for commercial timber production and stewardship functions have established protocols and procedures for fire management across State forests.

However, it is recognised that if log production levels were to change substantially, the capacity requirements under Option 2 (as well as Option 1 and Option 3) would need to be reviewed.

### 4.6 Option 3 – Integrated land management agency

Option 3 involves the establishment of an integrated forest management division within an existing Department agency, such as DPIPWE, such that it becomes a fully integrated landscape management agency responsible for all of Tasmania's forests and National Parks and reserves. The rationale for further analysis of this option is its capacity to provide greater efficiency in managing an extensive estate of forest reserves, across a range of land tenures, and the range of non-commercial activities outside of FT's commercial functions. In doing so, this model offers potential to establish more transparent and efficient management arrangements for non-commercial activities, across an expanded forest reserve system in Tasmania.

An outline of Option 3 with proposed allocations of management functions is presented in Figure 4-5.