PUBLIC

THE LEGISLATIVE COUNCIL COMMITTEE ON GOVERNMENT ADMINISTRATION 'A' MET IN COMMITTEE ROOM 1, PARLIAMENT HOUSE, HOBART, ON MONDAY 4 JULY 2011.

FORESTRY TASMANIA FINANCIAL PERFORMANCE INQUIRY

Mr ROBERT GORDON, CHIEF EXECUTIVE OFFICER, FORESTRY TASMANIA, **Ms SUE SHOOBRIDGE** AND **Mr HANS DRIELSMA** WERE CALLED, MADE THE STATUTORY DECLARATION AND WERE EXAMINED.

CHAIR (Ms Forrest) - Thank you all for coming. Bob, do you want to make any opening remarks before we start? I thought it would be helpful to go through the responses to questions previously. You gave an indication that you want some of this in camera, so we'll go through that and determine which bits.

Mr GORDON - Given some of the things that have happened since, there are some other things that we would like to talk to about in camera as well.

CHAIR - Okay, you can make that request at the time because the committee has to deliberate on it. Do you want to make any other opening remarks?

Mr GORDON - No.

CHAIR - Going to your response on 14 June to the question we sent you, you indicated that you wanted some or all of it in camera. Can we go through it and if you can identify what particular areas and why you want some sections in camera?

Mr GORDON - Some of the information that we would like to present to you about individual customers and their debtor position, we would like that in camera because we have a privacy act and we don't think it is fair to name individual customers and their current debtor arrangements with Forestry Tasmania. Given some of the questions you asked last time, we think that would be a worthwhile exercise to go through all of that. If the committee wants to do it in camera, we are more than willing to go through in a completely transparent way.

CHAIR - So the broad issues of debtor management we can talk about openly? Looking at the questions in relation to those, is there any information provided here that needs a written response, does that need to be in camera, in your view?

Mr GORDON - No, but you asked specific questions about this. In answer to question 20 it would not be normal to have banking covenant matters public information. No listed company gives that sort of information.

CHAIR - So you're going into a different area now?

Mr GORDON - Yes.

CHAIR - We will get to that in a minute.

Mr GORDON - Okay. I think all the rest we are fine with.

CHAIR - So you're happy this is in public?

Mr GORDON - Yes.

CHAIR - Your response to question 20, is that what you want in camera?

Mr GORDON - Yes. The covenants normally wouldn't be a matter of public information for even a listed or unlisted company.

CHAIR - We will probably have some more questions about debtors and debt management when we get to that and we can deal with those particular issues in camera at that stage. We will continue to make a decision at that time.

Mr GORDON - It may be that some of the discussions around some of the other questions, if you want to go further than what we have put in our letter, that -

CHAIR - You can make that request at the time and we can consider that as well.

Let me start off with a couple of broader questions before we go into those particular areas. Can you describe to me how you see your obligations to your shareholders? As a government business, how do you see those obligations?

Mr GORDON - They are described under the GBE act and the Forestry act and that is to keep them fully informed of the items set out in both the corporate plan and the ministerial charter, to keep them updated on our financial performance and to advise them of any things that we believe are going to be significant events just for Forestry Tasmania or for the industry in general.

CHAIR - I want to go into a few of these areas but I do not know if anyone has any broad questions before we go into some of these particular areas that answers have been provided to us. Just looking at comments around the cash flow, you provided some information about your operating cash flow in the first six months of the just past financial year which was $3.156 million of cash deficit -

Mr GORDON - From 31 December 2010?

CHAIR - Yes. Are you able to now provide a more up-to-date view of what you would expect this current financial year, as of now, 4 July, as to what you believe your expected cash flow surplus or deficit will be?

Mr GORDON - Again, you would not normally expect a listed entity to provide that - but I am more than happy to do that in camera, if you like.

CHAIR - Won't this be reported very soon in your annual report anyway?

Mr GORDON - It will be in about two months' time but if we could put it into context I think that would mean you would ask some different questions.

CHAIR - As far as providing information then about what you expect it to be for this current financial year and forward financial years, are we looking at a deficit or a surplus?

Mr GORDON - There will be a cash deficit for sure and I would expect that our operating profit for the year just completed will probably be a little bit better than last year's so I would expect an operating loss of about $6 million and again that is before all the ins and outs of the operating accounting stuff gets taken into account. It will take a while to work out what that is. Last year there was about a loss of $9 million and we would expect that the unfunded cost of managing the formal and informal reserves to be similar to last year of about $9 million to $10 million. So again if the CSOs have been funded then we would have made a small operating profit, but given they have not been funded I expect we will make a small operating loss this year.

CHAIR - You are happy to go into more detail in camera?

Mr GORDON - Yes.

CHAIR - We might leave these things until we go in camera for those other questions.

Mr WILKINSON - Yes, that is the best way.

Mr HARRISS - As you indicated at the start, Madam Chair, it is a matter which the committee will need to deliberate on as to the submissions that the Bob has already made, both in writing and in the preliminaries, as to whether we go into camera so that is a matter which we have not yet decided upon.

Ms FORREST - But we want to get all these things on the table first, that is the question and then we can discuss all of them at once.

Mr HARRISS - As long as it does not impact on the flow of where we are heading. If we are going to be jumping all over the place now then -

Ms FORREST - That is why I am asking whether -

Mr HARRISS - I am happy to continue the way we are at the moment. There are some things there, as you have indicated, that are public. Do it now.

CHAIR - It will mean jumping around a bit.

Mr HARRISS - Yes.

Mr WILKINSON - It is better doing that rather than getting open evidence in camera. It is best, in my view, if it is out of the way now.

CHAIR - You say in question 6C - if you want to refer to it - that you believe the minimum operating cash surplus should be in the order of $20 million, to cover your capital expenditure.

Mr GORDON - While ever the TCFA program is applicable. So, effectively, what has happened - can I go briefly back into history to put that into context?

If large areas of production forests had not been taken out of production and put into reserves, we would have quite a different cash flow on the balance sheet. In practice, areas were taken out of productive forest, and we were paid some compensation by the State and Federal Governments for the asset that was lost, but there was no compensation for the cash flow that was lost. It is bit like when the Government compulsorily acquires your house and they pay you compensation. But they say you cannot live in the house for 20 years when you build the new one. The asset was taken out of production but there was income stream to substitute for the lost production of wood capacity.

CHAIR - That is true, but if you do not have a market - if the markets have changed and there is not a market for that product - then that would not necessarily hold true.

Mr GORDON - That is right, but I do not think anyone is saying there is not a market for sustainably-managed forest products.

CHAIR - There has been a change in the market.

Mr GORDON - Our largest customer, Gunns, was driving down the road in their car and some of the more extreme environmental groups shot out their tyres and they ran over the rest of our customers, and then us. That is what has happened. I think the market for sustainably-managed forest products is still quite strong.

CHAIR - It has been damaged though, are you suggesting?

Mr GORDON - I think Gunns' brand has been badly damaged by ENGO campaigns overseas. A bit like the one we saw this morning from a new anti-forestry group, targeting Harvey Norman for using sustainably-managed Australian forest products instead of using imported products from non-sustainable forests. As a result of that, there has been a substantial impact on not just Forestry Tasmania, but nearly all of its customers. The impact of that, I think, will go away once there is some certainty back in the market. Gunns announced to the market in 2004 or 2005, that they we building a pulp mill and intended to substantially reduce the export of forest products from Tasmania. They announced, I think, three years ago that they were exiting native forests and all the customers that were buying that wood started looking for alternative sources. So, I do not think it is true to say that the market for Tasmanian forest products has been substantially damaged. I think Gunns have been in a difficult situation where, for its own business reasons, it decided to build a pulp mill and get out of sustainably-managed forests and into plantations. As a result of that, the quite substantial market-dominant position they had - controlling all of the export activities - has changed, and their market has dropped. I am not sure the same is true of Tasmanian forest products here. Again, there is lots of evidence of that. If you look at all the market information around, there is a substantial tightening of supply because of all the new capacity coming from China. There was a short-term surplus when the tsunami hit a couple of pulp mills in Japan, but all of the market evidence suggests there is quite a strong demand, particularly for sustainably-managed forest that has full PFC certification.

CHAIR - The point you made, Bob, was that there has been extra forests reserved or locked up and there was compensation for that, but not for the loss of cash flow.

Mr GORDON - Yes, for the loss of asset but not for the loss of cash flow.

CHAIR - I accept that, but you have also gone on to say that Gunns has made commercial decisions, and its reputation in the marketplace is perhaps being tarnished by the actions of others. That has obviously affected the broader industry, not just Gunns.

Mr GORDON - Gunns effectively shut all of its chip-exporting mills earlier this year and this has substantially affected all the country and family-owned sawmills. It has affected a lot of logging contractors, and it has affected Forestry Tasmania. Until the uncertainty surrounding those facilities is cleared up, we are going to have the same uncertainties we've had. The effect on Forestry Tasmania is that many of our customers are in even more financial difficulty than we are, and that's one of the reasons I was hoping we could go through some of the individual circumstances of our customers in camera, to give the committee a flavour for what this uncertainty has meant to people.

CHAIR - We'll take that into consideration when we get to it. Do you have discussions with the board about these issues of debt management?

Mr GORDON - Correct. At every board meeting we have a full financial report, which reports our debtors - what the options are. Some of this isn't as predictable as we'd like - some of the banking institutions have sometimes made decisions that affect their customers, which then affect us. We have to manage our cash flow as tightly as we can.

CHAIR - What direction did the board provide in managing the cash flows, when you provided them with these reports?

Mr GORDON - We have a target for working cash. As you are probably aware, we have converted some of our moneys, which we held in investment accounts, into easily-available cash.

CHAIR - Which ones are they in particular?

Mr GORDON - We did have some in an investment account, but we have rolled some of that over into cash.

CHAIR - Is that the one you use for your superannuation?

Mr GORDON - It was never really a superannuation account. We labelled it that -

CHAIR - Is this the one that was used in 2008, to take $6 million out of -

Mr GORDON - Yes.

CHAIR - What is the balance of that at the moment?

Mr GORDON - As at today, I don't know. As at end of December, it would have been about $14 million or $15 million. As you are aware, we are going through a substantial program of downsizing and we have been drawing money out of that account to pay people's redundancies and superannuation payments. As you're probably aware, we are a defined-benefits scheme. We're obliged to pay out money when we get the bill, and we often don't get much notice of that. It could be $500 000 or $750 000, and we are given 14 days to find the money if the people take a lump sum and they're in a defined-benefits scheme. We have to find the cash for it and provide it to RBF.

CHAIR - Do you have a figure on the actual balance of that account at the moment, and the movements out of that? Can you provide that?

Mr GORDON - It would be about $7 million or $8 million.

Ms SHOOBRIDGE - It's about $7.3 million at the moment.

CHAIR - So, a balance of $7.3 million?

Ms SHOOBRIDGE - Approximately that.

CHAIR - There was $13.6 million noted in your annual report of last year, so you've taken out $6.3 million. For what purpose?

Ms SHOOBRIDGE - As Bob said, for meeting RBF commitments and redundancy payments.

CHAIR - So, it's being used as it was intended, if you're doing that with it. Isn't that the purpose of it?

Mr GORDON - Correct, but we didn't expect to use it. At the time it was established, we had 550 employees and there was a different retirement profile. As at 30 June, we will have about 360 employees - so it's gone down about 200 people in the last three years - and because some of those people took lump sums, we have used the fund at a much quicker rate than we would have expected to use it.

CHAIR - But, these people are only going to retire once.

Mr GORDON - But you can't predict whether they take a pension or a lump sum. If they take a lump sum, we have 14 days to fund the whole lot, other than the 30 per cent that is funded from the employee's contributions. If they take a pension payment, it is paid as the liability occurs. Last year we paid somewhere between $4 million and $5 million in pension payments to people as well. Again, that is more than we would have expected because many of the people have retired earlier than we otherwise would have calculated that would have retired.

CHAIR - Do you have any more people in your -

Mr GORDON - There are some still in the system who have not yet left, who will leave over the next three or four months.

CHAIR - Would you expect that some of those would leave in the end?

Mr GORDON - I think they all left before 30 June; I have not checked. We have tried to make it as cooperative a process as possible. So some people preferred to leave before 30 June and some after 30 June.

CHAIR - Can you provide the amount, I am not asking for specific people, just the amount that has been paid in redundancy and superannuation payouts from this account?

Mr GORDON - We can do that.

CHAIR - You said redundancies come out of that as well as your superannuation requirements?

Mr GORDON - I think the reduction in the salaries accounts for about $5.8 million from the reductions we have made. There would be another lump that would be a substantial reduction of the number of vehicles that were needed. We have obviously saved in the superannuation liability that otherwise would have been accruing from those people, whether it was super guarantee levy or the unfunded defined benefit scheme.

CHAIR - Obviously, when you talk about some of this, I guess it was part of the strategy, to manage your cash flows with the redundancies and the early retirements, to downsizing your vehicle fleet and those things. What other things have you and the board decided to do to manage these cash flow challenges that you face?

Mr GORDON - One of the challenges with reducing staff is that you have to fork out the cash before you get rid of them. So most of the cash has been forked out -

CHAIR - So that is coming out of that investment account?

Mr GORDON - Some would come out of our normal cash reserve, depending on the amount and when it was done. For example, we also have some of these people who had substantial amounts of annual and long service leave that they would have accrued. So it would have been taken partly out of provisions and partly out of the current allowance, and the money that has been paid out we would expect to see as a reduction in operating costs in the coming year. But most of the reductions have been done during the year. So, the current year is a cash outflow with a cash saving for the following year.

CHAIR - What other strategies besides that?

Mr GORDON - We have gone to - I think I mentioned some of these last time - voice-over internet protocol telephones. We have leased our vehicle fleet which, again, gave us bit more flexibility about reducing vehicle numbers as they dropped off rather than selling them into a market that was fairly tight. I should know the number of vehicles; we have probably reduced the number by 50 or 60.

CHAIR - From a total of?

Mr GORDON - A total of 250 to 260, plus the specialised fire-fighting ones which are not on lease because there is not a great resale market for special purpose four-wheel drive fire-fighting tankers.

CHAIR - You would not turn them over very often anyway, would you?

Mr GORDON - No, we tend to keep them. We have some really old Landcruiser flat-trays, which have had more money spent on adapting them for fire-fighting than they are possibly worth but to replace them would cost you a fortune. So we have done some of those things.

We renegotiated lease arrangements on our buildings. We have just sold the Huon-Geeveston office to the Education department. That was done last week.

CHAIR - They will probably close that down and sell that soon, too. What did the Education department buy it for, not a school?

Mr GORDON - To turn into some sort of community thing that they received Commonwealth money for?

Dr GOODWIN - I think you said last time, something about finding an area for child care, is that right?

Mr GORDON - There was child care and something else. I thought you might know, Mr Harriss?

Mr HARRISS - Out of touch, Bob.

CHAIR - Can you tell me how much they paid for that?

Mr GORDON - I think it was $450 000 and we are going to move people up to the depot and we will have to spend less than that because it is a bit like at Smithton with the offices and the depot and we are now going to combine the two, so that everyone is in the one spot, That will save some operational costs, but it is also better to have everyone in the one spot anyway.

The reduction in rent that we have in head office is $700 000 a year and you are probably aware that we have rented some of the building out to tenants so we actually have some tenants in our head office building as well.

Most of our vehicle fleet is now diesel so we save quite a bit of fuel costs as well as on police costs.

CHAIR - Diesel is not much cheaper than fuel now?

Mr GORDON - A diesel car gets 30 or 40 per cent more - my Volvo gets over 7 litres for 100 kilometres and the Holden I had before was closer to 12 litres.

CHAIR - Not as good as the Ford Mondeo then, that gets 6.6.

Mr GORDON - Yes, not too bad. It all sounds like small amounts but when you add them up it is actually quite a bit of money.

Mr WILKINSON - What is the cost of all that? Can you put a figure on that at all, Bob?

Mr GORDON - How much we have saved?

Mr WILKINSON - Yes, as a result of all that. It seems the Government is now talking about making all these savings so I suppose they are trying to put a figure on it. What type of figure would you put on it?

Mr GORDON - Again, things like voice-over-Internet protocol phones are at least $100 000 a year but that also gives you a lot of functionality -

CHAIR - That is the cost of implementing it, are you saying, Bob?

Mr GORDON - No, that is the savings per year.

CHAIR - But you still have the cost to implement it, you have to provide the new handsets and -

Mr GORDON - If you have already got good computer networks then it is just the cost of the handsets and they pay for themselves very quickly. The lease arrangement with the building and the vehicle fleet - I had to look at the costs, say, 18 months ago compared to what they are now but I would be surprised if we had not saved $1 million a year on that sort of stuff. Again, you always have the option of going high-capital, low-fuel economy or relatively low-capital, high-fuel economy and we have gone the low-capital, good fuel economy route.

Mr WILKINSON - It would seem to me, though, there would be more saving than $1 million when you are looking at leasing your vehicles, reducing your cars by 50 or 60, renegotiating a lease on a building -

Mr GORDON - Sorry, the total sum?

Mr WILKINSON - Yes, the total sum.

Mr GORDON - My best guess is between $5 million and $7 million in the people costs and another $1 million or so in the smaller operating cost type things that we have made and there are still some of those to work through. Not all of the savings in the district amalgamations and the outsourcing of our road improves saving or at least have not flowed through yet so I expect that most of the savings will not actually appear in the savings and cash until the financial year we have just started.

CHAIR - We are currently up to question 6 in the letter and we are talking about the capital investment expenditure commitments; when you talk about the $42.5 million of capital expenditure related to plantation establishment and this reflects completion of the TFCA commitments - $37.43 million over the next five years not including this first year, the first year is separately listed - and we ask does this mean that the minimum operating cash surplus needed to pay for the invested amounts is therefore $7 million over this period? Can you give us some information about that $7 million for plantation establishment, does that come from operating cash flow or not or where do the funds come from to achieve that?

Mr GORDON - Hans is our expert on the TCFA.

Mr DRIELSMA - I am not sure what your question is. It just comes from the cash reserves that we have so it is money that we will need to generate from our operating activities or from our cash reserves.

CHAIR - Are you saying the minimum operating balance of $20 million, but when you go further down you talk about that and you do not have that much cash available -

Mr DRIELSMA - Have we?

CHAIR - Well, that is what it said, that there is a deficit of $12 million - have you got that much?

Mr DRIELSMA - I think we have. I cannot remember what our cash was last year but we had more than $20 million -

CHAIR - This is just your capital expenditure, though, this is not including any operating expense.

Mr DRIELSMA - I am not sure what your question is. Are you saying do we have enough cash to cover our investing activities?

CHAIR - Yes. And over the forward period? It talks about '$37 million over the next five years' - in spite of the challenges.

Mr DRIELSMA - It is certainly one of the challenges, but going forward - and I think some of this we will discuss when we get a chance to in camera - clearly our board has to come to the view as to whether we have sufficient funds to continue forward. They have come to that view and that is their present position.

CHAIR - Do you want to ask them about cash flow issues? Do you want to have a discussion about the in-camera issues related to cash flow now?

Mr HARRISS - No, I think we can pick up on it later. I'm happy as we have discussed earlier, just get into the in camera stuff at the end rather than jumping back and forth.

CHAIR - With regard to internal segment reporting, what else do you report internally?

Ms SHOOBRIDGE - So far as the reporting is concerned, we report to the gross profit line. We just had a detailed discussion with the Auditor-General in relation to segment reporting in our annual accounts going forward and he has now agreed with our position that it's not appropriate to segment report because we don't report to management at the net profit line by segments that have been previously identified by him in his report. For instance, export sales, we only report at the gross profit line and not the net profit line. We also can't split our assets and liabilities by the end use, or end of sale, so we don't reserve part of the forest, if you like, for export. Segment reporting, from our perspective now, is not going to go forward in the way that it was originally anticipated it would. We do, however, intend to give some information that would come out of segment reporting to close off in relation to, say, tourism by way of note, rather than the full segment reporting.

CHAIR - You were segment reporting back in 2008, I think was the last year, or was it earlier than that?

Ms SHOOBRIDGE - That is not in relation to the new standard, which has only come in in the last two years.

CHAIR - In 2008 you reported hardwood, softwood and infrastructure in segments, so you're not intending to do that now?

Ms SHOOBRIDGE - Because we don't comply so far as the new standards are concerned.

CHAIR - What other areas are you - tourism is one?

Ms SHOOBRIDGE - Tourism by way of note, perhaps some information around credit risk concentrations - which comes out of a segment reporting scenario.

CHAIR - And the infrastructure -

Ms SHOOBRIDGE - No.

CHAIR - So why not infrastructure?

Mr GORDON - I think we've probably finished that one when the Southwood Huon and Southwood Smithton projects were being developed. I think that's probably why that was being reported then. It was about $15 million.

CHAIR - Provided these with $23.9 million.

Mr GORDON - That sounds like the two Southwood projects added together. That was to develop the site at Smithton. I suspect that is why it was done at that time, because it was effectively a separate line of business that was being developed to try to hold on to and then finish just as quickly.

CHAIR - Do you consider community service obligations as part of the sector reporting?

Ms SHOOBRIDGE - It is not a separate segment so far as the standard is concerned.

CHAIR - So you just report that separately?

Ms SHOOBRIDGE - As a line item in the PML, but not as a segment in the segment reporting note.

CHAIR - As far as how you measure or determine within the organisation, with the board, in discussions I assume you have, when you report to the board do you report the breakdown with hardwood, softwood and sawlogs in detail?

Ms SHOOBRIDGE - At the gross profit level, not net profit.

Mr DRIELSMA - As far as products go - sawlogs and so on - it is a revenue reporting, it is not a full cost reporting because they are joint products and there is no separate balance sheet and there are no separate identification costs - impossible. So they are simply a product line, they are not segments.

CHAIR - The logs you export as whole logs.

Mr DRIELSMA - But it is a product, it not a segment.

Mr GORDON - When we log a coupe, I make up the number. We might get 10 000 tons of wood and depending on the coupe and its location and current demands, it might be a quite different series of products that go out from that coupe than another coupe. If it is a pure regrowth coupe in the southern forests in Smithton, there will be a much higher delivery of domestic peeler than there will be from coupes that are mixed age or mature or further away from those two locations. But each of the coupes will probably supply at least a little bit of each product. So it is really hard to report at the revenue line, if you then try to work back and allocate all your costs against bits of trees, it is almost impossible.

Mr DRIELSMA - It is impossible because they are joint products. If there is a difference between a segment and a product

CHAIR - I accept that but what I am trying to establish is -

Mr GORDON - We tried to do it a few years ago and we had a couple of external consultants in to try to work out how we might be able to divide up our common costs and we gave up, basically.

CHAIR - What I am trying to establish here is when things are a bit tough, as they are, how do you determine what is profitable and what is not if you do not break it down to some degree and if you are operating one sector that is costing you money?

Mr DRIELSMA - You can only look at contribution markers, as you do with any product.

CHAIR - But if you do not have some idea of the area you are operating in, do you see what I am saying?

Mr DRIELSMA - But if we are producing sawlogs, pulpwood and veneer, we cannot decide that we will not supply pulpwood and we can only decide, do we harvest or do we not harvest, are we in business or are we not in business?

CHAIR - That is part of the timing thing as well, I assume? If you were not making money out a particular sector at a particular time because of the market, then wouldn't you adjust your business? That is what I am trying to establish here.

Mr DRIELSMA - Yes, of course you would.

Mr GORDON - We try to adjust and you would have noticed in the last three or four years how our forward plans changed quite a bit. One of the reasons they changed is that four years ago there was a substantial change in the product mix because 250 000 tonnes that used to go to Triabunna as woodchips exports, now goes to Ta Ann. But in doing that it meant changing the scheduling of the coupes, so that we had coupes that met the criteria for Ta Ann being scheduled a certain way, rather than just targeting coupes for sawlogs and Triabunna. The challenge in the last 12 months has been that customer demand has been up and down like a yoyo and it has been really hard to schedule, as we normally would do to maximise the margins on each particular product.

CHAIR - If you do not have some sort of internal reporting here, how do you ensure that you are getting the best outcome for your product that you can?

Mr GORDON - We get internal reporting on every product type to every customer. That is reported and so effectively against stumpage. So it does not take into account the cart, how you distribute the costs of our 350 staff or allocate it against each of those products. What we do is manage the net margin on each of those products that contributes and we then -

Mr DRIELSMA - Those margins vary depending on the customer and the location and particular conditions. The judgments we make in our own particular sales and particular time is not about a product as a whole.

Mr WILKINSON - What Ruth is saying, I think, is if you have Cadbury dairy milk and Cadbury caramello and you are not selling the caramello but you are selling the dairy milk, you would probably get out of the caramello because the dairy milk is a -

Mr DRIELSMA - That is a very good analogy because in that circumstance, you can do that because all the ingredients that go into those, you can turn them on or off. But when we are producing timber from a coupe, we cannot turn a pulp log into a sawlog; we can't turn a veneer log into a sawlog; and we don't want to turn a veneer log into a pulp log. We have products to produce, and we have to make those judgments from a long perspective rather than a short time frame, and it is about developing markets. There may be times when you have to sell some product, which is going to be produced anyway, at least loss. You cannot do that in the long-term, but in the short-term you might need to. Again, it is not a judgment you make on a product basis - you do it on a particular sale basis. When things are tough in the pulpwood business you might say, 'We should try to get our pulpwood close to market to maximise our margin and we'll leave some of the long stuff until the price improves' or something like that. They are the sorts of judgments that are being made all the time. They are made at a contribution margin on particular sales and we look at that internally, but it is the basis for external reporting.

Mr GORDON - At the moment, for example, we have the twin challenge of Gunns shutting four of its woodchip export mills, and an agreement between parties and Forestry Tasmania about the moratorium on some coupes. At the same time, Ta Ann's demand for peeled veneer billets has been running high, so we have to do a whole lot of scheduling in the coupes that produce mostly rotary veneer billets and sawlogs. From those same coupes we are maximising export log production because at the moment there is a very, very limited pulpwood market while ever Gunns have got those export facilities shut. Once the export facilities reopen, we will change all the scheduling and all the margin analysis will also change.

CHAIR - I am asking these questions because there are challenges to your bottom line, and if you do not sell the product profitably - and I hear what you are saying about sometimes needing to sell at the least loss -

Mr GORDON - We have been trying to maximise the recovery of products other than pulpwood and when we go in camera later, I was going to share with you the analysis of the last (?) sheet we put out, and explain, from our point of view, how those margins work. We had a choice, probably three months ago, between shutting down all our harvesting activities - and shutting down most of our customers - or undertaking a substantial rescheduling exercise to maximise sawlog rotary veneer and export billet recovery, which is what we have done. There is a short-term cost in that, in that we have to build roads, and we have to reschedule. Every time you move a contract it costs money. If we had not made that decision, the alternative would probably be everyone shutting down and -

Mr DRIELSMA - And no revenue coming in.

Mr GORDON - no revenue coming in.

CHAIR - Last time we spoke your debtors were out to 91 days. Is that still the current situation?

Ms SHOOBRIDGE - That has worsened.

CHAIR - Where are we now?

Ms SHOOBRIDGE - One-hundred and one days

CHAIR - Who makes the decisions about debtor management? Is it a decision of the board? Is it a decision of management? How do you manage that?

Mr GORDON - It depends on the level of debt. I have a briefing, every board meeting, about people that owe us money - I am happy to go through all of those in camera - and we make decisions about continuing supply, and we have cut off supply to some customers or required cash payments in advance for some. We have also entered into negotiations with some about paying some of the debt off over time.

CHAIR - That is a decision of the board, or a decision of management?

Mr GORDON - It depends on the level of debt. If people owe us $2 000 - that is a management decision - but if people owe us $2 million, it is board decision.

CHAIR - What advice does the board give in regard to the larger debts?

Mr DRIELSMA - It is ongoing. We deal with this every month. It's an evolving situation and these things are changing all the time. It's a seamless transition between board and management. It is not as though there's a big gap. We run as a single company and we make decisions, whether by the board or management, that are simply FT decisions. We have delegations given by the board that allow managers at different levels to make different decisions, and there are matters that are reserved to the board. Those things are reported on a continuous basis - meeting every month - and situations are reviewed and decisions are taken or advice given, depending on the emerging situations. There is no single answer to that. It is an ongoing discussion.

Mr WILKINSON - Would I be right in saying it's like any business where, in relation to debt, you look at the client and their ability to pay. You look at the market to see whether they will be able to pay at some later stage. You look at the fact that if you close them down, you are not going to get that money. It's one of the issues that businesses face from time to time and it has to be managed in the best way possible, without any defined end of the line because you don't know, but you have to make the best judgment you can on the evidence you have.

Mr DRIELSMA - Exactly. I think that's put it perfectly. It's the nature of the discussion we have on an ongoing basis with the board.

CHAIR - At what point do you send in the receivers?

Mr DRIELSMA - There's no answer to that question.

Mr GORDON - Generally it's the banks that send in the receivers anyway. So, of our customers who have gone into receivership - and there have been many over the last two years - some went into voluntary administration first, but mostly the banks called in the receivers because they are the secured creditors.

Mr DRIELSMA - I guess the answer to that is - when you come to the view that it's the best outcome you're going to get.

CHAIR - So, you're obviously giving them a great deal of time in some cases. The average is 101 days, so there are obviously some out longer than that. What is the longest time?

Mr GORDON - I'm not going to mention individual customers -

CHAIR - No, I'm not asking you to. I am just asking for the time frame - how far are we out? Six months? Do you receive advice from any other areas, such as the stakeholders, or the stakeholder ministers, about your debt management, or is it only a board and company decision?

Mr GORDON - It's a board decision. We brief our stakeholder ministers occasionally on major customers we have debt issues with - and sometimes smaller customers. We have taken advice from people who undertake company analysis, about the state of particular customers - we have done that a few times - but generally we know our customers reasonably well and what their capacity to pay is.

CHAIR - Have you been given advice or direction from other bodies, such as stakeholder ministers?

Mr GORDON - We have never received a direction from a stakeholder minister.

CHAIR - Advice? Obviously, they are aware that you report.

Mr GORDON - Correct.

CHAIR - Do you have a strategic debt management plan?

Mr GORDON - We have a plan for each customer.

CHAIR - Is that ticked off through the board process, or is that only bigger customers?

Mr GORDON - It depends on the size of the customer. It's all reported on - the type of plan we have with each customer, who the customers are, and the issues.

CHAIR - How much are you owed at the moment - total debtors?

Mr GORDON - I wouldn't know today because we would not have done the end of month accounts.

CHAIR - Up to last month then?

Ms SHOOBRIDGE - I think it is about the same level as we previously advised.

Mr GORDON - It is about $37 million.

CHAIR - To what date?

Mr GORDON - As at 31 May, of which nearly $10 million is current.

CHAIR - How much do you owe your creditors?

Mr GORDON - All our creditors are paid under the terms of their arrangements.

CHAIR - There are no outstanding ones, in your case?

Mr GORDON - No.

Dr GOODWIN - I would not mind having a look at the information, whenever we can do that.

CHAIR - Can we do that?

Dr GOODWIN - Do we need to that in camera?

Mr GORDON - We have to do it in camera because it would be breaking the Privacy Act.

Dr GOODWIN - That is fine. So when we go into camera.

Mr GORDON - I am happy to do this in camera with this committee, although we have had an extremely unfortunate circumstance with another committee that appears to have broken parliamentary privilege and distributed information and this has caused a severe effect on FT and its capacity to deal with its customers, but we have the utmost confidence in this committee.

Mr WILKINSON - Bob, your insolvency laws would come into being as well, wouldn't they in relation to this?

Mr GORDON - Yes.

Mr WILKINSON - What I am saying is, it would be more than foolish for any board to say you are a viable entity when, in fact, you are not. Therefore, people go to court often in relation to trading when they are insolvent.

Mr GORDON - Much more often in the last three years.

CHAIR - With the TCFA fund, if I can take you to question 2. The question we asked was are the figures, supplied by the Auditor-General in 2009, of the RRIA of $51 million spent cash. You did not answer whether you believed they were correct or not, but they do differ from FT numbers.

Mr DRIELSMA - I have just explained the numbers we have. I think that is all we needed to say.

CHAIR - Are you saying that they are wrong?

Mr DRIELSMA - All I know is the position that we have answered there is as we understand it.

CHAIR - The difference from what the Auditor-General said in his annual report?

Mr DRIELSMA - I am not sure that there is any significant difference. He talks about $40 million and I think, in our answer there, we indicated $40.5 million. So I am not sure what the problem is.

CHAIR - With the information that you provided in a chart that talks about the information regarding the fund's procedure, the fund's expense and the RRIA balance, we did ask for the unspent cash. When we go through and look at your figures through the last annual reports, the numbers are different from the annual report that is provided here on this table.

Mr DRIELSMA - What is given in our annual report is all the RRIA, not all of which relates to TCFA. So you would not expect them to be exactly the same. There are rats and mice in our accounts that have similar characteristics.

CHAIR - So we are dealing purely with TCFA grants?

Mr DRIELSMA - These figures here are correct -

CHAIR - You said there were other things included in that. You said that yourself.

Mr DRIELSMA - You referred to the annual report. There are general figures in there talking about credit you received in advance and I believe that there may be some other things in there other than just purely TCFA moneys.

CHAIR - How do we know what is TCFA money and what is not?

Mr DRIELSMA - Because I have just provided this information for you here.

CHAIR - How can we find that information in the annual reports then?

Mr DRIELSMA - We report it by note. We are not required to have a line item for TCFA per se in everything, I do not believe.

CHAIR - You are saying this does reconcile these figures with your annual reports?

Mr DRIELSMA - They would be reconciled.

CHAIR - Can you provide a reconciliation for that? The figures in the annual reports don't line up with the figures you've provided.

Mr DRIELSMA - Could you point us to where that is?

CHAIR - I'm going back to 2005 - we have 2004-05 right through and it flows from the top, obviously, but there was nothing expensed at that time in the annual report. There's not $1.9 million in the figures you've provided, so I'm asking for reconciliation between these figures and the annual report's and also the unspent cash, which is still not itemised in this as a separate line.

Mr DRIELSMA - What do you mean by the 'unspent cash'? In the table we have funds received, funds acquitted and funds balance. That represents the amount, the $22 million as at the end of 2009-10, of funds that are yet to be acquitted against activities. If you look at what is not spent - and taking your terms - if you look to the next set of columns, we have the funds that have been expensed of $90 million, so the balance of $49 million is I think what you call 'unspent' but, as explained in the note in the response, about $9 million of that relates to a capital expense which is then matched to the depreciation over so that there's about $40 million of unspent cash.

CHAIR - That's why I am asking: what is the unspent cash?

Mr DRIELSMA - If you go back to the response under point 2, you are referring to the 2009 accounts and asking a question. There was a total revenue received in advance of $55.9 million, of which $49 million related to TCFA funding. As I mentioned before, there is about $6 million of other revenue received in advance, nothing to do with TCFA. So we had $49 million of TCFA funding, and of that amount $9.2 million had been spent, but on capital improvements, and the revenue recognition is deferred and matched on an annual basis. So the money has been spent but in our accounts it is not expensed because we match it on an annual basis with the amortisation. That left $40.558 million as the funds balanced - they are the funds that have yet to be spent. That matches to the table for 2008-09. You didn't ask about 2009-10 and I don't have those figures there but it's going to be something similar. It's going to be about $40 million or less.

CHAIR - The expense generally means written off on an income statement and spent -

Mr DRIELSMA - We have $49 million which hasn't been expensed and $40 million which hasn't been spent, in the terms you've just indicated. The difference being that $9.2 million, and we have built roads and some other capital improvements. We have undertaken those works but they will be recognised in the profit and loss as the amortisation is brought to book.

CHAIR - It makes it very had to follow.

Mr DRIELSMA - Accountants are like that. Sorry, I'm not an accountant either and I find it very hard to follow as well.

CHAIR - So you're saying that the $1.9 million expensed back in 2004-05 wasn't TCFA funds?

Mr DRIELSMA - No, I didn't say that.

CHAIR - If you go by that figure, according to your annual report there was nothing expensed in that year? It is this lack of correlation between the two.

Mr DRIELSMA - There may be some adjustments in subsequent years so I'm not sure if you go right back to those and track them all the way through to see whether there has been some subsequent year adjustments because sometimes the accounting rules have changed.

CHAIR - So you're saying in 2009-10 that $50 million is the unspent cash?

Mr DRIELSMA - No. I just explained that there's at least $9 million - $9.2 million - that relates to money that has been spent on capital improvements but it has yet to be recognised as revenue.

CHAIR - We don't have a column that talks about the unspent cash, that would be a different number, is that what you are saying? I am asking for a table with it and I asked that last time; the first time we asked we requested the unspent cash be included in this chart.

Mr HARRISS - It is $40.558 million, isn't it?

Mr DRIELSMA - Yes, in 2008-09 it is.

CHAIR - Are you saying that $40.558 million in 2008-09 is the unspent cash?

Mr DRIELSMA - Hm. We had trouble keeping track of it so I am not surprised that you are finding it difficult as well.

CHAIR - That is why I think it needs to be reported in a simple way -

Mr DRIELSMA - There is no simple way, it is a complicated concept and accounting is sometimes complex so I am not sure if there is any different way of providing it. That last column is the money that is unspent, in my understanding.

CHAIR - My understanding is - and I am not an accountant either - revenue received in advance is that which is yet to be written off and it will always be greater than the unspent cash. This is not the case in the way you reported it.

Mr DRIELSMA - I might have made a mistake earlier. The $40.558 million is after we take out the $9.2 million and it relates to the funds expended on capital improvements, so in fact that last column, the RRIA balance, is in fact unspent cash balance.

CHAIR - What is your RRIA balance then? If you are saying that what you have listed as the RRIA balance is the unspent cash, what is your RRIA balance?

Mr DRIELSMA - In 2008-09, it is $49.774 million, as I have indicated under this.

CHAIR - That is what I have asked for. I am asking for a table that gives that detail. Do you understand what I am asking for now?

Mr DRIELSMA - We want to add back the capital -

CHAIR - I want the RRIA balance changed to unspent cash as that is what it is and then the RRIA balance as a separate listing.

Mr GORDON - I am just wondering what the objective of the exercise is?

CHAIR - I am trying to track how this money has come and gone. There has been a lot of confusion about where this money has been.

Mr GORDON - In practice, what happened was the forest asset was taken off us -

CHAIR - Yes, I understand that.

Mr GORDON - and we were paid compensation and what we undertook to do was to commit to putting in a certain amount of plantation and certain other things. How much money it took us was up to us.

CHAIR - You were given a certain amount of money for those purposes, though, weren't you?

Mr GORDON - We were given money in compensation and in return for - it is a bit like the Government acquires your house and they give you $500 000 and you say 'I'll build another house' and the Government does not ask you how much you spent on bricks and how much you spent on mortar and how much on floorboards, all it wants to know is you built the other house - that is what we have undertaken to do, to establish the plantations that were required, to do the silvicultural management that is required and if we do it more efficiently the money is ours but if we do it less efficiently we have to find more money for it.

CHAIR - Have you got a full list of all the requirements that will need to be met?

Mr GORDON - Correct - that is what we manage on. That is all we manage on and, in general, our plantation establishment is probably a little bit more efficient than we put in the compensation claim but at the end of the day, our obligation is to build the new house.

CHAIR - I understand that but what I am trying to -

Mr DRIELSMA - The legal requirements on us was simply to acquit to the Government our expenditure of the funds, which is what we do on an annual basis.

CHAIR - Are you saying that there was no direction given about anything you had to do?

Mr DRIELSMA - The assumption or the agreement under the TCFA was that money would be provided for intensive forest management purposes and some others, and the agreements specified a number of high level activities; one of them was intensive forest management, which was mentioned in the agreement to cover plantation establishment, plantation improvement and silvicultural thinning. Then there was another requirement for us to acquit those reports on an annual basis, which we have done, and it is that first set of columns there which do that acquittal.

CHAIR - Yes.

Mr DRIELSMA - But there are no requirements on us

CHAIR - No, but this is of interest to the people of Tasmania.

Mr DRIELSMA - You asked about the requirements and -

CHAIR - Yes, it does but there are requirements also to build walking tracks -

Mr DRIELSMA - No, we did not have any requirements for walking tracks.

Mr GORDON - That was Parks. It was nothing to do with us. A whole lot of people got compensated that did not lose anything. Forestry Tasmania lost assets on its balance sheet and a substantial loss of income. We were paid compensation by the Commonwealth which probably was not sufficient and we were then directed that we should spend that compensation on trying to get new productivity, which is what we have done. A whole lot of other people also got money out of the TCFA funds. It was nothing to do with us. I think there was money for something at Coles Bay for a visitor centre and a whole range of other things, but it was nothing to do with Forestry Tasmania.

CHAIR - Be that as it may, can we have that further breakdown to track -

Mr DRIELSMA - It won't be a breakdown, it will be additional column of the capital expenditures that are part of the RRIA, which I don't think are in that last column. That is cash that is spent.

CHAIR - You are saying that the unspent cash is the RRIA?

Dr GOODWIN - Can I just clarify, what you're saying is that when you got the compensation there wasn't a dollar value put on intensive forest management, for example, or other things that you had to do, you had a fair amount of flexibility as to how you would apply the funds?

Mr DRIELSMA - The agreement itself specifies a number of categories of activity and one of those was intensive forest management, so there was an amount against intensive forest management and within that amount there was a recognition that it was to be devoted to new plantations, plantation improvement and native forest thinning but the allocation within that was a matter for Tasmania. We put up a proposal that was approved by our minister as to how we would allocate those funds across those three programs. It was not part of the agreed TCFA, it was a matter for Tasmania to sort out how that was done, and we advised the minister on that and sought his approval for the way we would expend those funds. We have been back once or twice over that period to re-evaluate how best those funds should be allocated across those three programs.

Dr GOODWIN - So each of the three programs got an allocation?

Mr DRIELSMA - There was one allocation but within that we had a program of how we would spend it.

Mr GORDON - The vast majority of it has been spent on establishing plantations which are thinned and pruned to produce solid wood products and we have become more efficient at that as we have gone on. We are the ones who developed it for eucalypt plantations and it cost us a bit more at the start than it has at the end.

Dr GOODWIN - So you have ended up with a bit more money than you thought you would have and you can spend it as you wish?

Mr GORDON - It is a bit like I said, if the Government acquires your house and pays you compensation they normally don't ask you about the design of the house you are going to build to replace it.

CHAIR - Is there a covenant that you spend all the money you have received on those activities?

Mr DRIELSMA - Yes.
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CHAIR - So there needs to be some sort of accountability?

Mr DRIELSMA - There is, there is an acquittal that we have done. We have acquitted, as indicated there, all but $22 million of those funds and at the end of this year I imagine we will have acquitted a large proportion of those remaining funds.

Mr WILKINSON - So there is no time limit as to when it was to be spent?

Mr DRIELSMA - The TCFA envisaged that it would be done over a five-year period and the money was to be paid over a five-year period. It was always recognised that we would be investing in plantations that would need to be thinned and pruned over time and so there wasn't any expectation that we physically spend the money in that time but certainly that we would acquit it in the sense that we would establish the plantations. It has taken us a bit longer to finish that program and that is understood and we will continue to roll out that program and complete it as quickly as possible. One of the main reasons that we weren't able to complete it as quickly as we would have originally envisaged was the change in the policy around the conversion of native forests. That was something that was largely externally driven and I think both governments were not uncomfortable with the view that we should move away from the conversion of native forests at the time we did, but a consequence of that was that it was always going to take a bit longer to establish the new plantations.

CHAIR - We might discuss further the issues that you wanted to raise in camera, the debtor's issues and the cash flow issues.

Mr GORDON - Do you want us to leave while you have that discussion?

CHAIR - Do want to present any further evidence to the committee as to why we should receive it in camera? You are talking about the privacy issues with the debtors which are reasonable. The question here with the cash flow and your operating cash flow position is that within a short space of time it is going to be in the public arena anyway and I am not sure what is going to be reported tomorrow. That is being tabled tomorrow, I am sure you are aware.

Mr GORDON - Correct.

Mr DRIELSMA - In the letter we wrote to you I think we indicated in fairly clear terms the arguments as to why we believed it was not appropriate to have some of those matters canvassed even in the short term.

CHAIR - Because of the volatility in the market?

Mr DRIELSMA - Yes, if we are paraphrasing, I think, which is somewhat more complex an argument.

CHAIR - Do you want to put that argument to us?

Mr DRIELSMA - I imagined we put it as eloquently as we could in the letter.

CHAIR - Do you want to add anything further?

Mr DRIELSMA - No,

Evidence taken in camera.

Mr GORDON - I am assuming that there are processes in place to ensure that evidence taken in camera stays in camera.

CHAIR - I have written to the Clerk of the other place, as a member of Parliament, identifying that this committee was having you come before it today, knowing that you want to provide some information in camera. I got a response that did not really answer the questions I asked about how evidence given in camera came to be published on a website, and what specific action had been taken to address that issue. I am still waiting on another response. But rest assured that *Hansard* will provide the transcript of both public and private evidence to the secretary, Stuart. He will go through it to check errors, and it will not be published on our website - will it, Stuart?

Stuart - No.

Laughter.

CHAIR - And you can rest assured it won't be released any other way, either.

Mr GORDON - The concern we had was that no-one told us evidence, that was commercially damaging to us, had been released. It was apparently seen by members of the committee, and everyone else but us, and we suffered quite severe damage, in my view. We picked it up on *Tasmanian Times*, I think.

CHAIR - That was a few days later -

Mr GORDON - Yes.

CHAIR - when it was published there.

Mr WILKINSON - It is surprising how so many people got it in a short time.

Mr GORDON - It is amazing. There has got to be confidence in parliamentary processes - we come here in good faith to give you a whole lot of information that no normal company would give its shareholders. So, we need to have some confidence that the system does work.

CHAIR - Rest assured that I have raised the issue and sought further clarification about how the information came to be published on the public website, and what action has been taken.

Mr GORDON - I can understand the mistake happening -

CHAIR - Errors do occur at times, yes.

Mr GORDON - I suppose it is just a coincidence that the Chairman of the committee was -

CHAIR - Yes.

Mr GORDON - The concern was that the information, or link, appeared to have been sent to others.

CHAIR - Rest assured that will not happen with any member of this committee.

Mr GORDON - No, that is why I said I have every confidence in this committee.

CHAIR - Do you want to give us the valuations, Bob?

Mr GORDON - Yes, I was going to get Hans to run through the latest valuations that will appear in our accounts. Do you want to run through it?

Mr DRIELSMA - Yes. You might be aware that last year, for the first time, we underwent an external valuation by a professional forest estate valuation company from America. They were well-credentialed in terms of working in the Australasian region and have been involved in a number of the forest transactions here over recent years. They valued our forest estate last year at around $300 million. We got them in again this year to do a revaluation and, as a direct result of the uncertainty currently in the market, particularly around the Statement of Principles process, their valuation process looked at the probabilities of various outcomes and made the sorts of judgments they expect a buyer would make if they were looking at valuing our estate. They have given us a valuation this year of $206 million, which is a reduction of about 31 per cent. So, already we are seeing the direct impact of the uncertainty created by that process, on the value of our forest estate.

Mr WILKINSON - That's amazing.

CHAIR - If the Statement of Principles process does not proceed and there is no further lock up of resources into the foreseeable future, will you ask for a further valuation based on a greater degree of certainty? And, do you think it would change?

Mr DRIELSMA - We will probably do it again next year. If it changed dramatically before we report then we might reflect on whether the valuation we have been given is the appropriate one to report in our accounts or not.

Mr GORDON - Well technically they have given us a series of scenarios.

Mr DRIELSMA - Correct.

Mr GORDON - If circumstances change and one of those scenarios occur -

Mr DRIELSMA - The nature of the valuation is such that if things change between now and the reporting date we could look at those scenarios, and the board could then take a different view about the valuation, which is what the decision our board has taken in regard to this.

Mr WILKINSON - Because if things were the same as last year forgetting about the sale of the timber, you would expect the valuation to be higher, would you not, because of the extra growth of 12 months in the trees, or is that just too easy to say that?

Mr DRIELSMA - It is a sustainable yield so we harvest what grows so we would not expect the growth itself to make a difference. You would only see that difference if you harvested more or you harvested less than what the sustainable yield was.

Mr GORDON - The cash rate has gone up a bit, the basics of discounted cash flow analysis applies, so the higher the interest rates the lower the value of the asset. When the economic circumstances are bad and you have low interest rates the higher the value of the asset. There has been, because of the market circumstances with Gunns in the last 12 months, a reduction in average prices as well. But a lot of the valuation change is the uncertainty around the level of production.

Mr DRIELSMA - More than 50 per cent. You can see what the change in the discount rate, the change in prices has done.

CHAIR - It is more the uncertainty -

Mr DRIELSMA - The remainder is the uncertainty that is around it. If that changed and it firmed up then we would see the valuation restored back to a level consistent with markets.

CHAIR - Knowing your obligations as far as the government business goes which you mentioned at the outset, in your opinion do you believe that being in a GBE structure is the most appropriate structure for the future of FT and the forestry industry in Tasmania? If not, what do suggest would be the most appropriate?

Mr GORDON - I think the GBE/State-owned company structure works better than the alternative that I have seen around.

CHAIR - That being?

Mr GORDON - In Victoria they split off the people who are responsible for growing the trees from the ones who sell them and if you read the Victorian Bushfire Royal Commission, which criticises all the people involved because there was no chain of command or no authority, it also cost them a lot more. So the taxpayer is effectively paying for the trees to be grown. Then another body sells them. Privatisation is the other option where you can sell off the estate and have a US pension fund come in and manage it and then they would perform no CSOs unless they were directly paid. If someone has the house at the end of the road on State forest, that road would be shut unless there was a payment from that ratepayer.

The challenge is really how to make the system work better. We have attempted to do that and hopefully the Auditor-General's statement tomorrow will clarify a whole lot of those issues about better ways you can look at CSO-funding, better ways of analysing what it really costs for some of these non-market goods and services to be delivered. It is a bit like the old saying about 'democracy is a terrible form of government until you compare it with all others'.

Mr DRIELSMA - If you take as your starting position that we are managing a natural heritage asset, if you like, public native forests that will never be able to be privatised, so if the assumption is that the public native forests that the public wants to see managed on a sustainable basis, if that is your starting point then I think the GBE structure is by far the best way of managing a commercial entity. It is not perfect, as Bob says, and there are lot of elements of that which put a lot of commercial constraints on us as commercial managers and which the private sector does not have. That is the cost you pay for making sure that it stays in public hands and delivers a sustainable result. But if you want that to work properly then government and parliaments also have to recognise those constraints and be prepared to either fund the cost of those, like the CSOs, or accept that there is a lower rate of return and that is what sustainability delivers - a lower rate of return. There is no point saying to Forestry Tasmania you should make 10 per cent return on asset, or whatever ridiculous figure people might come up with, if the result you want is one that is always going to sub-optimise on short-term commercial outcomes because you want a long-term commercial outcome, or a long-term sustainable and commercial outcome.

CHAIR - So do you see that is where FT can be with a long-term, sustainable financial outcome that would see you paying dividends again to the State?

Mr DRIELSMA - Absolutely.

Mr GORDON - Again, if you look at the historic performance of FT, when the CSO payments were stopped, when the softwood joint venture was half sold, when a whole lot of areas were put into formal or informal reserves and we could not get money out of them, if you add all those -

Mr DRIELSMA - And we started paying rates.

Mr GORDON - And we started paying $3 million a year in rates for no road maintenance or garbage collection or anything else, and you add all those back in, we would be paying dividends now. You have to compare like with like.

Mr DRIELSMA - If you add the effects of those, that is $11 million minimum each year over the last 10 years that we would have had that we no longer have, which are returns back to government, which we -

CHAIR - Are you saying that at this particular point in time there is essentially a choice for government between getting dividends out of FT or funding CSOs? Obviously you are not going to have both?

Mr GORDON - But again I suppose if you look at it from a higher-level point of view, it is more transparent to pay CSOs and have contractual arrangements for their delivery. Like our fire fighting services, in my view, we should be paid for. There is no argument that we should be paid for a whole lot of management of reserves, because we tend to do it. In the same circumstances it would be more expensive for Parks because of the physical location of some of the reserves. Whether that is done by way of paying the CSO or you simply acknowledge it in the accounts and say well that is the dividend foregone. Our view is it should be transparent so everyone knows what is going on. For example, the fire service gets paid for its delivery of fire fighting capacity by the fire services levy. We don't, but when there is a major forest fire we fight it with Parks and with the Fire Service. When there is a major incident bushfire it will not run without FT. There are not enough people who are trained and experienced to run it. We are not funded for any of that.

CHAIR - So Bob has FT directly approached and requested funding for the CSOs from the Government?

Mr GORDON - Correct.

CHAIR - When did you do that?

Mr DRIELSMA - On 31 March 2011.

Mr GORDON - That was partly as a result of the work that the Auditor-General has been doing. He made a whole lot of interim recommendations, including getting the separate independent valuation done, which we did last year. We prepared a whole lot of information for the Auditor-General about what we believe are our CSO costs, and we might not end up being paid all of our costs, but we expect to be at least paid for the ones where there is a contractual negotiation about delivering those outcomes.

Mr DRIELSMA - Most importantly, whether we are paid for it or not, it must form part of the discussion when we appear before committees like this who ask us about our rates of return, that those returns are clearly understood.

CHAIR - Well, that has been made clear to this committee.

Mr DRIELSMA - Otherwise we are battling. We are paying all these things and getting beaten around the head for allegedly having low rates of return.

CHAIR - Have you heard from the Government as a result of that letter of 31 March?

Mr GORDON - No.

CHAIR - They take as long to respond to you as they do to me, then.

Mr WILKINSON - Can I ask you in relation to bad debts? The bad debts to me would be running higher than they have run in the past?

Ms SHOOBRIDGE - Not bad debts per se.

Mr WILKINSON - Not bad debts, but let us say outstanding debts?

Mr GORDON - Outstanding debtors always go up in tight economic and difficult circumstances.

Mr WILKINSON - If you took your average over the last 10 years - or five years, say - your outstanding debts would be how much higher on average?

Mr GORDON - I don't know, off the top of my head.

Ms SHOOBRIDGE - I think it is probably useful to look at the Auditor-General's report last year and you can see how the debtor days have grown over the last three years. I think they were down about 42 days which is sort of normal, about three years ago.

Mr GORDON - You could probably track it to the global financial crisis.

Mr WILKINSON - And when you look at that, you would be returning a profit, would you not, if it was the same as what it was on average back in 2005-06-07.

Mr GORDON - It mostly affects our cash position so we have a lot higher cash balance but the profit at the moment is driven by two things: one, many of our customers going into administration or receivership, some of whom owed us some money - not a lot but it dried up some markets; and Gunns' decision to shut their chip mills and exit native forests which is a short-term thing until other players can service those markets.

CHAIR - No other questions on this?

Mr GORDON - One thing, before you finish. Dr Drielsma is retiring on Friday after over 10 years of dedicated service. He has certainly been a key player in the RFA and the TCFA and I thought I should acknowledge the contributions he has made to Forestry Tasmania over that time.

CHAIR - All the best in your retirement. Probably it will be a lot less stressful than working in FT at the moment.

Mr GORDON - It's not stressful as parliamentary hearings.

Laughter.

THE WITNESSES WITHDREW.