

Legislative Council Government Administration Committee

Inquiry into Half Yearly Results

Overview:

- Thank you for the opportunity to address your committee.
- The reason we are here is that Forestry Tasmania has been endeavouring to be as transparent as possible, within the constraints imposed upon us by operating in a commercial and competitive environment.
- As part of our efforts to be more transparent, we took on board suggestions by the Legislative Council and in particular this committee's chair, that half yearly results would be useful to parliamentarians and the community more generally.
- It seemed to us to be particularly relevant this year when the industry is obviously going through a difficult transition period.
- I would ask the committee to bear in mind that this is the first time that FT, and perhaps any GBE or SOC has released half yearly results, and we appreciate that they were by no means a full set of financial statements.
- There are some challenges in preparing a full set of statements twice a year – firstly the half yearly statements are currently unaudited and it would be a challenge to move to fully audited accounts.
- We would be reluctant to prepare and release full financial statements without the comfort of having those accounts fully audited, and secondly, there is no authority for GBEs to release a full set of half yearly accounts.
- We released as much as we felt comfortable and we did so because it is something a listed company would do and there were treasury guidelines that indicated we should as far as possible act like a listed company.
- I would now like to take you through the half yearly results, as we announced back in February.

(Distribute hard copy power point to committee members and then talk to it)

Slide One – need to mention that the Japanese earthquake occurred subsequent to the statement. Chinese demand is still strong, but the earthquake has resulted in some Japanese pulp mills closing temporarily, and those woodchips were diverted to China, which has affected woodchip sales, resulting in the closure of the Triabunna mill.

Slide Three: Announce progress with amalgamation of the Mersey district and the redundancy program:

- Mersey district lost over \$1m last year. Amalgamation is now virtually complete.

- By April 6, 19 positions were made redundant and there was one early termination payment. The total cost was \$831,000 and the payback period is less than one year. Salary savings are estimated at \$916k per annum
- FT is considering other expressions of interests, and assessing works infrastructure in the Huon and Murchison districts to achieve further savings

Financial Highlights:

Timber sales is up, partly because of an increase in whole log exports

Tourism revenue is about the same as last year – but doesn't include revenue for Tarkine Forest Adventures which was leased in October. Taking that into account revenue from tourism was slightly above the previous year.

Other income includes:	Contractor Assistance:	\$2.7m
	Forest Management Services	\$2.9m
	Sundry	\$1.9m
	TCFA	\$0.6m

Operating expenses is slightly up reflecting the costs of achieving extra timber sales. It primarily represents increased payments to harvesting and transport contractors.

We would like to explain more about our community service obligations later.

But the bottom line is that for the first six months, we achieved a 15 per cent increase in operating profit. Before CSO's , the profit was \$7m. After CSO's \$2.2m.

- As we forecast in February, trading conditions have become more difficult as a result of the anticipated closure of Gunns Hampshire and Tamar mills, and the unexpected closure of Triabunna.
- However, the board and senior management has made provision to ride out this period of transition, but cashflow and sales volumes will remain tight, very tight, while the disruption to pulpwood markets continue.
- We are also trimming our costs where possible – salary savings coupled with reducing telecommunications costs, selling the vehicle fleet and leasing back will help ride out this period of uncertainty.

Forest Industry Strategy

- With your indulgence, I would like to make a couple of comments about the Forest Industry Strategy in the context of this committee's Terms of Reference.
- It is necessary first to explain how we see our role. We are not signatories to the Statement of Principles, and we do not set government policy on land use. As such,

we are not required to agree or disagree with government policy, but to work within the parameters set by government and the parliament, as defined through legislation such as the Forestry Act and the GBE Act.

- At the end of the day, it's our job not to set the amount of forest available for wood production, but to make the most of the resource we are asked to manage.
- We would however like to develop a shared vision with the Tasmanian and Australian governments for how the future might look for the forest industry and our role in that future.
- We believe a strong viable FT is essential for delivering the vision. For many years, the cost of managing state forest for multiple use including recreation, tourism and bee keeping for example, has been met from the revenue produced from the sale of timber products. This revenue has also helped secure more downstream processing - the best example is Southwood, where more than \$80m(?) has been invested by the private sector in a rotary peeled veneer plant, sawmill and hopefully one day soon a biomass plant.
- If the peace talks are successful, it is likely less wood production forests will be available and there will be more reserves.
- As a GBE, with unrivalled knowledge of the State forest estate, a strong science based forest management system and a good understanding of business drivers, we are well placed to deliver maximum employment and economic benefits from the reduced wood production forests.
- Likewise, FT is best placed to manage any additional reserves. Our management of these reserves allow tourism development, hunting, fishing, firewood collection and mining. These activities are generally restricted if not prohibited on National Parks.
- We can also manage these reserves cost effectively. For the past 13 years at least, we have managed these reserves at no cost to the taxpayer. However, we believe to maintain a strong viable FT, the government will need to provide a CSO – to at least partially assist with the cost of managing non-economic zones.
- I would make the point that the government has not been subsidising forestry for the past 12 years, forestry has been subsidising the government. We have looked after conservation reserves without any recompense and the cost of that alone is estimated at more than \$100m.
- The TCFA money was not a subsidy, it was compensation. In exchange for taking away wood production areas, FT was provided funds to develop a plantation resource to replace the wood that it would otherwise have harvested on those new areas of reserves. We have not yet seen any financial benefit from that – it takes up to 25 years to grow a sawlog so we are waiting a quarter of a century to derive any financial benefit from the money provided by government for new plantations.
- Thank you Madam Chair, we look forward to taking your questions.

Terms of Reference

2. Actions taken by Forestry Tasmania to address the decline in operating cash flows previously reported and noted by the Auditor General.

General Response: A forensic examination of financial results would show the following:

- Overall profitability has remained fairly static over a long period of time when you take into account that FT is longer being paid for its Community Service Obligations, that it now pays local government rates (although rates to local government will fall if more reserves are created as a result of the peace talks) and it no longer has the full sales revenue from the softwood plantations. A half share in softwood was sold to GMO, and if that \$40m was returned to FT rather than the government's consolidated account, FT would not have any debt, saving about \$3.1m in debt servicing. (Guarantee Payments \$850k)
- The Auditor General notes debt collection has had a negative impact on cash flow. As the Auditor General noted, our customers are taking longer to pay invoices – a sign of the difficult trading conditions these customers have faced over the past 24 months. Forestry Tasmania has implemented a program to pursue overdue accounts, and that has had some effect. FT is also rigorously monitoring cash levels on a day to day basis and have sufficient liquidity to meet our debts as and when they fall due. We have also outlined how we are reducing operating costs through the redundancy program.
- Clearly, FT needs to be a very efficient, lean organisation going forward and we think the optimum staffing component is around 350, but that will vary according to the outcomes of the Forest Industry Strategy.
- I would also like to make the point that FT should be measured against the contribution it makes to the economy, not just it's own balance sheet. The final value of wood products sourced from state forests last year was in the order of \$563m - we spent \$176m paying employees and contractors, we paid \$2.8m to local government, and despite no dividend contributed about \$1.7m in cash to the Tasmanian Government.

3. Factors impacting on the ongoing profitability of Forestry Tasmania

- Japanese earthquake and the loss of pulpwood markets (talk about re-scheduling)
- High Australian dollar
- Community Service Obligations

4. Financial and Operational Implications of the recent restructure of Forestry Tasmania resulting in the abolition of the Mersey district.

- 19 redundancies and one early retirement costing \$831,000, but saving \$916,000 in annual salaries. On track to reduce staffing levels by 50 by the end of the financial year.

- There are additional flow on savings – for example it means we will be able to sell surplus FT vehicles, and to reduce the number of vehicles we lease, saving about \$10k per year.
- Mersey lost \$1m last year – share of timber sales declined markedly over recent years
- Irrespective of the peace talks and trading conditions, it made sense to reduce the number of districts from five to four
- Operationally, there have been no serious downsides with efficiencies being gained by reducing districts from five to four.

