ENVIRONMENT TASMANIA
The Conservation Council

Submission

Legislative Council Inquiry

14th April 2011

Inquiry into Forestry Tasmania's Financial Performance

Summary

Forestry Tasmania's financial performance is poor and does not represent a sound investment for the Tasmanian taxpayer. There are a number of significant financial indicators that call for a radical review of Forestry Tasmania in the way it operates and is currently structured:

1. Cash flows that have continued to decline

2. A structural contraction in the native forest wood chip market with a subsequent ongoing reduction in profitability.

3. The largest customer by volume removing itself from the native forest market, again with further ongoing negative pressure on cash flows and profitability.

4. A continuing decline in equity resulting in an overall diminution of the States investment

5. An unfunded superannuation liability which represents over 40% of the stated equity of Forestry Tasmania.

Forestry Tasmania's Financial Performance

It is difficult to determine an entity's financial performance based on only six months' worth of financial data. However a clearer picture emerges when in this case we look at the long term trends of Forestry Tasmania in relation to its financial performance.

There has been a progressive decline in dividend return to the State, cumulating in no dividends being issued for the last four fiscal years ending in 2009/10. This has occurred despite ongoing subsidisation of Forestry Tasmania by Commonwealth and Tasmanian taxpayers to the tune of $230 million over a fifteen year period.

There are a number of factors that have contributed to this situation, primarily Forestry Tasmania is operating within a very competitive market producing a product that is no longer required in the volumes it once was. By any measure Forestry Tasmania's financial

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performance has been very poor and on balance has not been a worthwhile investment for the Tasmanian and Commonwealth taxpayers. Any company in private enterprise which performed similarly and with the current liabilities of Forestry Tasmania would be wound up. The fact that Forestry Tasmania is a GBE does not divest it of the responsibility of returning to its owners a real rate of return.

Forestry Tasmania's equity has continued to fall over the last decade or so due to a number of factors that have resulted in a continuing write down on its balance sheet. Currently it holds just over 100,000ha in plantation which given recent events in other parts of the country that have seen such assets devalued significantly, there is likely to be a further downward adjustment on Forestry Tasmania's balance sheet.

With a significant section of its workforce approaching retirement age and an unfunded superannuation liability in excess of $118 million, there is a rapidly developing financial crisis approaching Forestry Tasmania. The financial returns clearly demonstrate that any significant uptake of retirement cannot be funded from current or projected cash flows. As a secondary but equally concerning issue, the current unfunded superannuation liability represents approx. 40% of the GBEs total equity, this is not a sustainable situation and will most likely require State Government intervention at some future point (further tax payer input).

In summary Forestry Tasmania's financial performance is poor and does not represent a sound investment for the Tasmanian taxpayer. There are a number of significant financial indicators that call for a radical review of Forestry Tasmania in the way it operates and is currently structured:

1. Cash flows that have continued to decline

2. A structural contraction in the native forest wood chip market with a subsequent ongoing reduction in profitability.

3. The largest customer by volume removing itself from the native forest market, again with further ongoing negative pressure on cash flows and profitability.

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Not withstanding Forestry Tasmania's recent restructuring undertakings, namely staff redundancies and the abolition of the Mersey District, the reality is that the underlying causes of its financial ills are the systemic and permanent structural changes that have impacted on the local and international forestry sector. Forestry Tasmania has failed to recognise this and adjust structurally and operationally to accommodate their significantly changed operational environment. Instead there appears to be an ever increasing reliance on taxpayer funds to prop up its cash flow position, coupled with a culture that believes the next big thing in forestry is just around the corner. This is not a professional corporate approach but rather an ad hoc strategy which appears designed to continue 'business as usual' notwithstanding the reality of the fiscal situation they find themselves in. The continuation of the current and historical financial performance of Forestry Tasmania is not fiscally responsible by any accounting standards, or acceptable to the broader Tasmanian community who are ultimately the legitimate shareholders of the entity.

There is a pressing need to significantly reform the current institution, with a serious review of the existing structure and responsibilities of the GBE. This can and should be put into a broader context of the need for structural reform of government agencies, including the need for a strong and independent Parks agency and Environment Department, and also in the context of the broader reforms that are occurring within the timber industry in Tasmania.

Recommendation

That the Tasmanian government accepts that there is a need to significantly reform the current institution, and undertakes a comprehensive review of the existing structure and responsibilities of the GBE.

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