

# Forestry Tasmania's STATEMENT OF CORPORATE INTENT

## 1 STRATEGIC DIRECTION

### 1.1 Introduction

This Statement of Corporate Intent for the 2014-15 financial year has been prepared in accordance with the *Government Business Enterprises Act 1995*.

The SCI represents a performance agreement between the Board of Forestry Tasmania and its Shareholding Ministers with respect to the financial and non-financial performance targets specified for the 2014-15 financial year. The SCI also represents an acknowledgement of the strategic direction of the business.

The performance targets within this SCI are based on, and supported by, Forestry Tasmania's 2014-15 to 2017-18 Corporate Plan, as submitted to the Shareholding Ministers in accordance with the *Government Business Enterprises Act*.

It must be noted that this SCI has been prepared during a period of ongoing transition for Forestry Tasmania and is primarily focused on 2014-15.

### 1.2 Main Undertakings

Under the *Forest Management Act 2013* the principal functions of Forestry Tasmania are to manage and control all Permanent Timber Production Zone Land and to undertake forest operations on Permanent Timber Production Zone Land for the purpose of selling forest products.

These functions were confirmed in the Ministerial Charter which was signed on 3 June 2014 by Forestry Tasmania's shareholder Ministers (the Treasurer and the Minister for Resources). The Charter defines the core activities of Forestry Tasmania and the Ministers' expectations of Forestry Tasmania.

These objectives include as Forestry Tasmania's principal objective an expectation that Forestry Tasmania will "be a successful business operating in accordance with sound commercial practice and as efficiently as possible; and achieve a sustainable commercial rate of return having regard to the social and economic objectives of the State, as agreed with the Portfolio Minister and the Treasurer."

The Ministers' strategic expectations for Forestry Tasmania include:

- Managing its forests on sustainable forest management principles, while maximising the recovery, utilisation and value of harvested wood;
- Working cooperatively with the Government to provide input to forest policy development and advice, including by contributing to the development and implementation of a comprehensive strategy to guide and secure the future for the Tasmanian forest industry;
- Retaining Australian Forestry Standard certification and achieving Forest Stewardship Council certification;
- Working with the Department of State Growth to encourage economic forest industry development within the State;
- Enabling and facilitating a successful Tasmanian forest industry;
- Working with key stakeholders to manage existing forest based tourism activities in Permanent Timber Production Zone Land; and
- Building and maintaining stakeholder trust and support.

### 1.3 Operating Environment

Over the past 4 years the forest industry in Tasmania has experienced its most difficult trading conditions which has had an ongoing detrimental effect on Forestry Tasmania's revenue.

Over the past year there has been some improvement with the depreciation in the value of the Australian Dollar relative to the United States Dollar which has positively impacted the competitiveness of exports which are invoiced in United States Dollars.

There has also been a change of Federal and Tasmanian Governments, and associated changes in forest policy, particularly in relation to guaranteeing ongoing resource availability to the forestry industry and rebuilding the industry – and therefore there is significant work to be done in developing and implementing the operational and legislative details of these changes.

However, there remains significant uncertainty about the future.

There has been a prolonged suspension of operations at critical sites for the processing and/or export of forest products (in particular, chipmills at Hampshire and Triabunna and port facilities at Burnie and Triabunna). There has also been a significant reduction in harvest and haulage contractor capacity.

While the forest assets of the former Gunns Ltd have recently been sold to NewForests, issues remain around ownership of the trees on some land, and permits for the Bell Bay Pulp Mill project remain to be sold.

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Some of Forestry Tasmania's customers have been unable to maintain normal trading terms. This includes one of its major customers with longstanding overdue debts to Forestry Tasmania that has only been able to improve its position marginally.

Markets and consumers are increasingly wanting to source products that have Forest Stewardship Council certification. Forestry Tasmania has made pursuit of this certification a corporate priority. This is a complex and demanding process and achievement and maintenance of certification cannot be guaranteed.

## 1.4 Strategic Context

Forestry Tasmania strategic directions follows the strategic expectations in the Ministerial Charter which are as follows:

- In undertaking its core business, to:
  - manage its forests based on sustainable forest management principles, while maximising the recovery, utilisation and value of harvested wood;
  - work cooperatively with the Government to provide input into forest policy development and advice, including by contributing to the development and implementation of a comprehensive and coherent strategy to guide and secure the future for an innovative and commercially viable Tasmanian forestry industry;
  - retain Australian Forestry Standard certification and achieve Forest Stewardship Council (FSC) certification;
  - work with the Department of State Growth to encourage economic forest industry development within the State;
  - enable and facilitate a successful Tasmanian forest industry;
  - work with key stakeholders to manage existing forest based tourism activities in Permanent Timber Production Zone Land;
  - manage each of the areas of land identified in Schedule 2 of the *Forest Management Act 2013* as an administrative reserve managed in accordance with the Tasmanian Reserve Management Code of Practice;
  - maintain a culture of continuous improvement in business operations, systems and processes; and
  - build and maintain stakeholder trust and support, including by acting in a socially responsible manner and taking all reasonable steps to minimise the risk of adverse effects on the environment that may result from Forestry Tasmania's activities.

In performing its functions, Forestry Tasmania must also have regard to the financial merits of any initiatives from the view of the State, including the extent of the financial risks to which the State's balance sheet is exposed.

## 1.5 Key Strategies

Forestry Tasmania's current strategy to respond to the range of issues facing it includes three types of activity:

- **immediate consolidation activities**, including identification and implementation of all reasonable opportunities to further reduce costs and to maintain or increase revenue;
- **immediate and ongoing market development activities**, including pursuing opportunities to establish market demand for new and existing forest products; and
- **investment attraction activities**, with a focus on achieving local employment and the generation of local wealth based on the production of the new and existing forest products for which demand has been established by market development activities.

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## 2 PERFORMANCE STATEMENT

### 2.1 Introduction

This performance Statement sets out the key performance targets to be met by Forestry Tasmania in 2014-15. The targets are based on the measures defined in Attachment 1.

### 2.2 Financial Returns to Government

The *Government Business Enterprises Act 1995* provides for the payment to the Consolidated Fund:

- income tax equivalents in respect of each financial year;
- guarantee fees; and
- dividends.

Target financial returns to Government on a cash basis are shown below.

	Target 2014-15	Actual 2013-14	Target 2013-14	Actual 2012-13
Dividends Paid (\$m)	-	-	-	-
Guarantee Fees (\$m)	<b>0.147</b>	0.034	0.028	0.615
Tax Equivalents Paid (\$m)	-	-	-	-

### 2.3 Financial Performance Targets

The financial performance targets are set out in Table 1

<b>Table 1 Financial Performance Targets</b>	Target 2014-15	Actual 2013-14	Target 2013-14	Actual 2012-13
Operating Profit/(Loss) Before Tax (\$m)	#	(28.07)	(7.69)	(31.27)
Operating Cash Flow* (\$m)	#	13.83	0.21	(3.76)
Debtor days	<b>80</b>	88	106	91
Borrowings (\$m)	#	0.2	13	1

\* operating cash flow 2013-14 includes \$23 million of deficit funding from government in 2013-14 and \$35 million of government funding in 2012-13

# no specific targets have been agreed given the Government is undertaking a review. Forestry Tasmania will operate to minimise its losses while meeting all of its existing responsibilities and obligations.

### 2.4 Non Financial Performance Targets

Table 2 sets out the key non financial performance targets.

<b>Table 2 Non Financial Performance Targets</b>	Target 2014-15	Actual 2013-14	Target 2013-14	Actual 2012-13
High Quality Sawlog wood volumes – m <sup>3</sup>	<b>137,000</b>	128,202	137,000	120 932
Low Quality wood volumes – m <sup>3</sup>	<b>1,524,200</b>	1,258,278	1,142,000	821 181
Native forest regenerated – ha	<b>3,975</b>	4,387	1,740*	3 868
Number of fires attended	<b>All as required</b>	34	All as required	54
Roads Constructed (Kilometres)	<b>83</b>	92.9	80	69.16
Lost time injury frequency rate	<b>&lt;6</b>	5.10	<6	4.46
Wood production per employee (tonnes)	<b>6,645</b>	4,921	4,377	2 684

\* This target should have been shown as 3,775 in last year's plan

### 2.5 Capital Expenditure

Capital expenditure primarily relates to road construction and the establishment and management of forests. Total capital expenditure for the planning period is shown in Table 3.

<b>Table 3 Total capital expenditure (\$ million)</b>	Target 2014-15	Actual 2013-14	Target 2013-14	Actual 2012-13
Establishment	<b>6.454</b>	4.027	6.44	4.487
Road Construction	<b>8.621</b>	10.330	7.48	5.401
Land, Building and Equipment	<b>2.425</b>	0.286	0.98	0.821
<b>Total</b>	<b>17.500</b>	14.643	14.92	10.709

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## 2.6 Community Service Obligations

The Treasurer and the Minister for Resources have directed, under section 65 of the Government Business Enterprises Act, that Forestry Tasmania perform the non commercial activities as listed in Forestry Tasmania's Ministerial Charter, which makes these activities Community Service Obligations (CSOs). Forestry Tasmania is working with the Department of Treasury and Finance to determine the costing and funding basis for these CSOs.

## 2.7 Compliance with Government Policies

In pursuing the strategic objectives in the context of the Government's directions, and undertaking its functions and exercising its powers, Forestry Tasmania shall act in accordance with:

- the governance framework for Government businesses;
- Treasurer's Instructions and guidelines that are applicable to Forestry Tasmania; and
- Government policies specifically applying to Forestry Tasmania as advised in writing by the Portfolio Minister and the Treasurer.

In particular the Portfolio Minister and Treasurer have advised their expectation that Forestry Tasmania comply with the Capital Investment Guidelines where it is considering any new business venture. In particular Forestry Tasmania commits to prepare a supporting business case for such activities and provide it to Shareholding Ministers for approval.

# directors' statement OF CORPORATE INTENT AND AGREEMENT OF SHAREHOLDING MINISTERS

The Board of Forestry Tasmania agrees to provide the Shareholding Ministers with financial and other information as set out in this Statement of Corporate Intent.

In signing this document the Board of Forestry Tasmania commits to the targets proposed for the 2014-15 financial year.

This Statement of Corporate Intent has been agreed between:



Robert Annells PSM  
**Chairman**  
Forestry Tasmania  
On behalf of the Board



Peter Gutwein MP  
**Treasurer**



Paul Harriss MP  
**Minister for Resources**

# ATTACHMENT 1

## Performance Measurement Definitions

Operating Profit/(Loss) Before Tax (\$m)	Profit or loss from continuing operations before tax expense
Operating Cash Flow* (\$m)	Cash generated by operating activities excluding financing and investing activities.
Debtor days	Average number of days that a debt is outstanding to FT.
Borrowings (\$m)	Debt level to Tascorp
High Quality Sawlog wood volumes – m <sup>3</sup>	Sawlogs meeting Categories 1 & 3 specifications
Low Quality wood volumes – m <sup>3</sup>	All other wood including pulp wood, peeler logs, categories 2 & 8 sawlogs, pine and special species.
Native forest regenerated	Hectares regenerated after harvesting
Number of fires attended	Wildfires fought
Roads Constructed (Kilometres)	Roading for harvesting operations
Lost time injury frequency rate	Number of lost time injuries divided by the number of hours worked, multiplied by 1,000,000.
Wood production per employee (tonnes)	Quantity in tonnes of wood harvested divided by the number of employees.