



The Hon Katrina Hodgkinson MP

Minister for Primary Industries
Minister for Small Business

IM11/17552

Mr Jonathan O'Dea MP
Chair
Legislative Assembly
Public Accounts Committee
Parliament of NSW
Macquarie Street
SYDNEY NSW 2000

19 OCT 2011

Dear Mr O'Dea *Jonathan,*

Thank you for your letter of 5 August 2011 regarding the Public Accounts Committee's Seventh Report on the Examination of the Auditor-General's Performance Audits.

I understand that Forests NSW has been providing advice to the Auditor-General and to the community on progress in completing the nine recommendations made by the Auditor-General in his performance audit into Sustaining Native Forest Operations. Updates and the completed recommendation reports are available on the Trade and Investment website at <http://www.dpi.nsw.gov.au/forests/management/reporting/audit>

I have attached a copy of the updated table for the Public Accounts Committee's consideration.

While there have been some delays in finalising some of the recommendations, Forests NSW remains committed to implementing all of the recommendations wherever possible. Of the nine recommendations four are now complete (recommendations 1, 4, 8 and 9), three are close to completion and are being managed by a dedicated project manager (recommendations 2, 3 and 5), and two are on-going (recommendations 6 and 7).

Thank you again for your letter.

Yours sincerely

Katrina Hodgkinson MP
Minister for Primary Industries

Encl.

**PERFORMANCE AUDIT - SUSTAINING NATIVE FOREST OPERATIONS
IMPLEMENTATION OF RECOMMENDATIONS – Updated 1 September 2011**

	RECOMMENDATION	DUE DATE	STATUS/COMMENT	RESPONSIBILITY
1	<i>Upgrade its forestry management system for native forests to capture all harvesting results and other events which impact on yield.</i>	Dec 2010	<p>Status: Complete</p> <p>Comment: The first version of the Event Data Management tool was provided to users in December 2010. Updates to the program will be released from time to time to incorporate improvements that are required.</p>	Forests NSW (Director Land Management and Forestry Services)
2	<i>Finalise its net area and strike rate modifier studies to improve the accuracy of its estimates.</i>	Sept 2009	<p>Status: Partly implemented; Full implementation delayed. Public reporting on Forests NSW website by October 2011.</p> <p>Update: The Strike Rate Modifier report has been finalised to improve the accuracy of the yield estimates. The report is available on the Forests NSW website.</p> <p>A project plan for the net harvest area modifier has been prepared and approved by the CEO Forests NSW and discussed with the Auditor-General's Office. An external project manager is running this project. Aerial photography was delayed by wet weather but is now complete. Wet weather has also impacted on timing of the field verification aspect of this project.</p> <p>The majority of the analysis and model development work will be completed by the agreed revised delivery date of September 2011. However, the final report is expected to be delayed until the end of October due to the weather impacts.</p>	Forests NSW (Director Land Management and Forestry Services)

RECOMMENDATION	DUE DATE	STATUS/COMMENT	RESPONSIBILITY
<p>3</p> <p><i>Undertake and publicly report the results of:</i></p> <ul style="list-style-type: none"> • <i>A review of yield estimates for native forests in Southern Region including Eden, South Coast & Tumut</i> • <i>A review of yield estimates for hardwood plantations</i> 	<p>June 2010</p>	<p>Status: In progress; public reporting on Forest NSW website by December 2011</p> <p>Update: Yield estimates have been completed for South Coast and Tumut however are still in progress for Eden. Work is required to verify the models, and this has contributed to the significant delays in completion. An external project manager is now engaged to ensure that this work is delivered by December 2011.</p> <p>The 2010 valuation of the post-1994 hardwood estate was underpinned by the most up-to-date available inventory and yield forecasts. Further refinements to the hardwood estate model, including a spatial wood supply model, were incorporated for the 2011 valuation which was delivered in June 2011.</p> <p>Comment: The South Coast (and the 2009 North Coast) reviews have been released to industry stakeholders.</p> <p>The most up-to-date yield estimates have been used in the F2010 and F2011 Discounted Cash Flow (DCF) valuations of the native forest estate.</p>	<p>Forests NSW (Director Land Management and Forestry Services)</p>
<p>4</p> <p><i>Publicly report the results of yield estimates for high quality large sawlogs, high quality small sawlogs, low quality logs and pulpwood for each region.</i></p>	<p>June 2010</p>	<p>Status: Complete; report available on Forest NSW website</p> <p>Comment: Public reporting on Forest NSW website achieved in December 2010. The reported yield estimates underpinned the recently-implemented Discounted Cash Flow method of valuation of Forests NSW native forest assets.</p>	<p>Forests NSW (Director Land Management and Forestry Services)</p>

	RECOMMENDATION	DUE DATE	STATUS/COMMENT	RESPONSIBILITY
5	<p><i>Compare harvest results against its yield estimates over five year periods as a means of testing the accuracy of estimates</i></p> <p><i>Report the results annually starting June 2010.</i></p>	June 2010	<p>Status: In progress. Report available on the Forests NSW website by end of September 2011</p> <p>Comment: A comprehensive revision of the methodology for this project has been completed so as to effectively address the issue of comparing actual harvest versus FRAMES predicted yield. As a result an updated methodology has been drafted and briefings undertaken with regional staff with respect to the data requirements. Collection of field information and analysis is well progressed.</p> <p>A project manager has been engaged to complete the analysis and reporting.</p>	Forests NSW (Director Land Management and Forestry Services)

RECOMMENDATION	DUE DATE	STATUS/COMMENT	RESPONSIBILITY
<p>6 <i>Investigate the reasons for not meeting its private property targets for hardwood timber and develop better ways of addressing these.</i></p>	<p>N/A</p>	<p>Status: The reasons for not meeting targets are discussed below. Forests NSW is working towards obtaining private property timber on a commercial basis.</p> <p>Comment: Important background note to this recommendation is that the 'private property targets' were set in the ESFM Plans framed in 2005, not in the Regional Forest Agreements signed around 2000. Thus, the Government's ability to meet its Wood Supply Agreement commitments arising from the RFAs was not prefaced on meeting set private property supplementation targets.</p> <p>Forests NSW ESFM plans were framed assuming a certain level of external funding for private property purchases would be forthcoming. The external funds actually allocated were less than anticipated and per unit costs higher than anticipated. Competition for millable logs forced up the price of rights to harvest standing timber as well as the price of timbered land, making it uneconomic for Forests NSW, as a Government Trading Enterprise, to purchase timbered land for timber production purposes alone.</p> <p>Note that some of the funds earmarked for "private property purchases" have been used indirectly for that purpose by the purchase of land carrying regrowth timber. This timber will contribute to future timber supply within the wood supply commitment period.</p> <p>Forests NSW has set up a Private Property Timber Supplementation business unit, to access private property timber resource and also to provide a paid service assisting private property growers to sell this timber for a fee or margin. In so doing, the Unit will be helping Forests NSW to achieve the remainder of the original intent of the private property supplementation program.</p>	<p>Forests NSW (Director, Native Forest Operations)</p>

RECOMMENDATION	DUE DATE	STATUS/COMMENT	RESPONSIBILITY
<p>7 <i>Investigate the potential for developing commercial markets for forest waste.</i></p>	<p>N/a</p>	<p>Status: On-going</p> <p>Comment: Forests NSW is always on the alert for marketing the full range of forest products. One promising opportunity emerging for "forest waste" is the renewable energy market. Forests NSW are undertaking a trial with Visy in the softwood plantations of Hume region on collecting post harvest waste for biofuel and potentially additional pulp quality material.</p> <p>One of the lessons learnt from the Visy collaboration is that world-scale throughput is needed for it to be viable. Visy would have greater confidence to invest if native forest biofuel could be used as a supplementary fuel source if required. Currently this market is unavailable because Clause 97 of the Protection of the Environment Operations (General) Regulations 2009 prohibits the direct use of native forest biomaterial to generate electricity. However, this restriction does not apply to sawmill wastes and biomass sourced from Forests NSW plantations.</p>	<p>Forests NSW (Director, Commercial Services)</p>
<p>8 <i>Simplify and improve timber pricing by introducing a new pricing system by December 2009 that:</i></p> <ul style="list-style-type: none"> • <i>Ensures log production costs are recovered</i> • <i>Is transparent.</i> 	<p>Dec 2009</p>	<p>Progress: New timber pricing system and approved price increase schedule are being progressively implemented.</p> <p>Comment: A new pricing system was developed and has been tested with industry over the past 12 months or so. The new system involves both price increases and simplification of the range of product categories.</p> <p>As the Auditor General noted, a significant increase in the price of native timber products pricing is essential for native forest operations to continue to operate on a long term sustainable basis.</p> <p>Forests NSW advised its high quality hardwood sawlog customers that it would apply the first of a series of six 3% price increases (over and above normal market-based price movements) over a 2-year period commencing</p>	<p>Forests NSW (Director, Commercial Services)</p>

	RECOMMENDATION	DUE DATE	STATUS/COMMENT	RESPONSIBILITY
			<p>from 1 April 2010.</p> <p>In response to consultation with industry, FNSW agreed to defer the implementation of a Timber Market Survey based price increase and a transition to a simpler pricing system until 1 July 2010 to allow for additional consultation.</p> <p>The proposed increases are based on the fundamental premise of full cost recovery for harvesting and haulage components to improve the financial sustainability along the whole supply chain.</p> <p>FNSW will continue to work with the timber industry in fine tuning the price system as its implementation progresses.</p>	
9	<p><i>We recommend that the Minister responsible for native forest operations include yield review requirements that allow for non-compensable reduction in allocation, in all future wood supply agreements.</i></p>	N/A	<p>Progress: Complete.</p> <p>Comment: As the Auditor General noted, a significant increase in the price of native timber products pricing is essential for native forest operations to continue to operate on a long term sustainable basis.</p> <p>Forests NSW advised its high quality hardwood sawlog customers that it would apply a series of six 3% price increases (over and above normal market-based price movements) over a 2-year period commencing from 1 April 2010. To date two 3% price increases have occurred.</p> <p>A transition to a simpler pricing system for high quality hardwood logs until has been completed.</p> <p>Contracts for high quality hardwood logs allow for the full recovery of harvest and haul costs.</p>	Forests NSW (Director, Commercial Services)