



NSW DEPARTMENT OF
PRIMARY INDUSTRIES

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Forests NSW

Management initiatives implemented for increased profit

Nature and scope of activities

Forests NSW operates as a public trading enterprise within NSW DPI. It manages a native forest estate of 2 million hectares and an expanding estate of hardwood and softwood planted forests to provide timber now and into the future.

Forests NSW comprises six branches: — **Planted Forest Operations**
— **Native Forest Operations**
— **Commercial Services**
— **Financial and Operational Business Services**
— **Land Management and Forestry Services**
— **Human Resources**

Established in 2007–08, the Human Resources Branch intensifies the focus on safety and staff development. It reports directly to the Chief Executive Officer.

For more information see the separate annual report we prepare as a public trading enterprise and the companion social, economic and environmental report.

Major outcomes achieved

Strong economic performance of primary industries

Commercial performance (State Plan P1, P6)

Forests NSW achieved an underlying trading profit of \$42.6 million in 2007–08.

This strong result reflects concentrated and responsive management actions to maximise revenues, and achieve improvements in operating expenditure in a climate of mixed market conditions.

The result combined with lower capital expenditure and productivity improvements, allowed Forests NSW to reduce debt levels by \$21.7 million, which reduced interest costs by \$2.9 million also contributing to the improved trading position.

Timber revenues were positively impacted by the strength in markets for plantation softwood and forest management services. Negatively impacting on revenue was the difficulty in accessing material in native forests, particularly due to wet weather conditions together with lower than forecast NGAC sales due to market uncertainty and a conservative sales strategy.

Wet weather brought some advantages, alleviating drought conditions across much of the forest estate, and resulting in a quiet fire season with significant savings in associated expenditure. This was a very welcome contrast to the disastrous fire season experienced in the year before.

Nurseries expansion and improved seedling production

(State Plan SP1, P6)

During the year Forests NSW grew in excess of 10 million seedlings for plantation establishment and has commenced the expansion of containerised seedling facilities at all production nurseries in order to meet the projected increase in future plantings. The move to containerisation was dictated by the many benefits it delivers, notably the ability to 'hold over' stock until the optimum planting time, the potential for multiple planting opportunities and, most importantly, greater planting success. Containerised stock uses on average 90 per cent less water than seedlings grown bare rooted in the ground so there are environmental as well as production advantages.

Stage one of a new container facility at the Blowering nursery near Tumut was completed. The nursery now has 1.4 million containerised seedlings in stock in addition to the traditional bare root crop.

Industry development (State Plan P6)

In January 2008 the Minister announced Willmott Timbers Pty Ltd as the successful tenderer for annual processing of up to 250 000 cubic metres of sawlogs and 70 000 tonnes of biomass resources from the Forests NSW Bombala plantations. The company and Forests NSW later signed a 20-year wood supply agreement.

An integral part of this agreement is construction of a new \$60 million sawmill by Willmotts at Bombala. The sawmill, which will process both large and small sawlogs, should commence operations in 2010. By increasing local employment opportunities, the sawmill will give the Bombala area a huge economic boost.

Over the year, Allied Timber Products ramped up production at its new \$15 million sawmill at Raglan, near Bathurst. The company plans further major investments in processing equipment and marketing.

Pricing review (State Plan P1, P6)

Forests NSW initiated the Review of Pricing for NSW Public Native Forest and Hardwood Plantation Log Products in 2006 to address ongoing industry pricing concerns. The subsequent report made a number of key recommendations, primarily concerning increased pricing transparency and predictability for all parties.

Consultation with the industry to develop an implementation plan for the key outcomes of the review has commenced and will continue through to late 2008

NSW Greenhouse Abatement Certificate sales

(State Plan P1, E3)

Forests NSW created a total of 690 000 NSW Greenhouse Gas Abatement Certificates in 2007–08. Of these, 100 000 were created after a review of the eligibility criteria for plantations established since 1990. The decision to make these plantations eligible under the NSW Greenhouse Gas Abatement Scheme will result in the creation of additional certificates annually throughout the life of the plantations.

Certificate sales were limited in 2007–08 due to market uncertainty and the conservative sales strategy which Forests NSW adopted in view of the prospect of higher carbon values in the future.

Commercial Opportunities for Plantation Residue

(State Plan P1, P6)

After plantation harvesting, significant volumes of residue material are either left on the forest floor or burnt on-site. The economic feasibility of using plantation residue for biomass energy production has to date been limited but changing technologies, developing markets and government initiatives are opening new opportunities in this area.

In 2007–08 Forests NSW sought expressions of interest (EOIs) for the purchase and processing of up to 150 000 tonnes per annum of softwood plantation residue from harvesting operations in the Macquarie region. A timber supply agreement will be negotiated for a minimum five-year term with the successful proponent of the EOI process.

Plantation establishment improvements (State Plan P1, P6)

As part of ongoing business improvements, Forests NSW reviewed practices for the establishment of second rotation plantations in the Macquarie region and, by revising the system for site preparation, achieved savings of over 20 per cent in related costs. The savings enabled the expansion of 2008 winter plantings in the region within the existing budget. We plan to replicate the new site preparation system in other planted forests regions.

Internal structural changes — specifically the amalgamation of Tree Improvement and Plantation Improvement groups, will enable us to take full advantage of the new state-of-the-art nursery and breeding arboretum at the Grafton Forest Technology Centre in delivering genetically improved pine and hardwood species for future plantation establishment.

Forestry service business expansion (State Plan P1, P6)

Forests NSW expanded commercial forestry services to Agriwealth Pty Ltd and in winter 2008 will establish over 1 500 hectares of new radiata pine plantation for the company in the Hume region.

Appropriate access to and wise management of natural resources

Sustainable forestry (State Plan E4)

Forests NSW completed the suite of ecologically sustainable forest management plans for all native and planted forests, publishing the final six plans during the year. The plans set the framework for achieving environmental, social and economic outcomes from publicly-owned, productive NSW forests. Our next step will be to implement a template for reporting by each forestry region under the plans consistent with the internationally agreed Montreal Criteria and Indicators. This will be used as a management tool for enhancing sustainability outcomes.

External audits of the Environment Management System were conducted throughout the year. Forests NSW maintained its environmental performance to the ISO 14001 standard and Australian Forestry Standard AS4708.

Rare plant discovered (State Plan E4)

A rare plant believed to be extinct for more than 100 years was discovered during a pre-harvest survey in Nundle State Forest in an area that was affected by fire control activities last year. The last recorded sighting was in the Nundle area in 1904. The plant *Euphrasia arguta* a member of the foxglove family *Scrophulariaceae* was identified by one of Forests NSW ecologists and confirmed by the Chief Botanist with South Australia's Department for Environment and Heritage. Forests NSW will now develop a conservation management plan for the plant.

Water quality monitoring (State Plan E1, E4)

A comprehensive water quality monitoring program has been in place in native forests and plantations since 1999. Building on that program, Forests NSW is developing a 2008-12 robust and statistically powerful water monitoring strategy that will comply with statutory requirements. Reports will be generated under the strategy to meet community expectations and maintain certification under the Australian Forestry Standard.

Asset protection (State Plan P1, P6, E4)

Moderate weather conditions during the year reduced the number and severity of wildfires in State forests, with minimal losses occurring.

An extensive operational review following the Hume region fire in December 2006 has led to Forests NSW enhancing plantation design and management strategies with a view to reducing the damage caused by future wildfires.

Control of the amount of fuel on the forest floor is an important aspect of fire prevention strategies. To this end we completed corporate fuel management plans which maintain consistent fuel and fire regimes across the forest estate. We also prepared regional fuel management plan templates to assist regions in developing more site-specific plans.

On a broader scale, Forest NSW is working on fire control and

protection on a landscape basis with agencies which have similar fire protection responsibilities — an arrangement that has led to mutually beneficial cost sharing.

Improved feral animal controls (State Plan P6, E8)

There are many initiatives in place across the forest estate to control feral animal populations, one of which is the licensing of hunters under the Game Council of NSW to cull feral animals. Currently 370 State forests are available for hunting.

This program is available under the *NSW Game and Feral Animal Control Act 2002* administered by the Game Council and is proving to be an effective method of feral animal control in State forests.

Brigalow Belt South and Nandewar Regional Assessment

(State Plan P6, E4)

Significant progress was made on developing licence conditions for the Integrated Forestry Operations Approvals which will regulate native forest operations in the Western region for the next 20 years. This is one of the outcomes of the Brigalow Belt South – Nandewar Regional Assessment.

Community use of State forests (State Plan E8)

NSW State forests offer many educational and recreational opportunities for the community. Consistent with priorities set by the State Plan, Forests NSW is developing strategies to encourage more people to visit State forests. Some recent initiatives include:

- improvements to Forests NSW online recreation information
- collaboration with land management agencies on production of cross tenure recreational information
- visitor monitoring through surveys and trail counters — an initiative that will allow us to develop targeted strategies
- a new education shelter at Cumberland State Forest funded from the Steve Stevenson Memorial Trust
- an upgrade to the Cumberland State Forest Information Centre.



Graham Marshall of Forests NSW Walcha Office and Doug Binns, Forests NSW ecologist with the rare *Euphrasia arguta* plant re-discovered during pre-harvest survey'

Contribution to conservation in the Hunter (State Plan E4)

In 2006 the NSW Department of Planning developed the Lower Hunter Regional Strategy to guide regional growth over 25 years and establish a green buffer for conservation and biodiversity purposes. Under the plan, Forests NSW transferred some 8 500 hectares of State forest to national parks and state recreation areas in 2007–08 and identified additional flora reserves in State forests.

Safe, healthy and biosecure industries

Safety improvements

A significant result was achieved when Forests NSW became one of only a few self-insurers who passed the Workcover Audit. The Audit was conducted in Central Region in February 2008. To further enhance the effectiveness of Forests NSW Safety Management System, a detailed improvement plan was developed and is currently being implemented.

Unfortunately, there were 41 lost time incidents and 58 medical treatment only incidents during the year. This was an unacceptable result and does not reflect initiatives recently implemented to improve safety performance. Forests NSW is targeting improved performance in future years.

Some of our current initiatives that are expected to make a difference from 2008–09 onwards are:

- improvements to the safety management system
- extensive training in safety leadership that highlighted the behaviours underpinning a safety culture
- improvements in our case management of injured employees, including the appointment of return-to-work coordinators in each of our major locations.

Log truck safety

Concerned at the number of incidents involving log haulage operators contracted to Forests NSW, we set up a special group in 2007 to investigate ways to improve truck safety operations. The group's final report detailed 21 recommendations around nine safety issues including driver behaviour, accident investigation, load configuration and constraint, and haulage contractor safety management. The case study later in this chapter has further details.

Excellence in people, innovation and service delivery

Developing our People

This year has seen the implementation of a Leader Within Program. The program is targeted at current and emerging leaders and provides a framework to enhance leadership and management skills, particularly in a complex and changing business environment. Two programs were run this year, with plans to further expand the program next year to incorporate strategic leadership skills.

There has also been an Introduction to Management program piloted which was developed in response to needs identified for employees moving into managerial positions where they are managing outcomes through people.

Upgrading forest management systems

Information delivery is critical to many aspects of our operations. As the existing Geographic Information System (GIS) was no longer adequately serving our business needs, a project team was established to plan and manage a major GIS systems upgrade. Once the upgrade is complete, Forests NSW will have a more efficient spatial mapping system capable of supporting key business applications.

Significant issues

Valuations of forests

Forests NSW commissioned an independent review of native forest valuation procedures following an audit qualification in 2007. The consultant's report recommended that the 2008 valuation calibrate the harvested product volume against the assessed standing volume and that Forests NSW make system changes to increase confidence around forest valuation in the medium to long term.

Native forests management (State Plan P6, E4)

Preparation of an environmental impact statement is in progress for native Red Gum and Cypress forests in south western NSW. This follows an agreement reached with the National Parks Association in the Land and Environment Court. The environmental impact statement, which is scheduled for public display in June 2009, will set conditions for timber harvesting, road construction and maintenance operations.

In other activities relating to native forest management, a review of the Forest Agreements and Integrated Forestry Operations Approvals for coastal native forests commenced. It will enable us to assess whether agreement objectives are being met and adapt techniques to continually improve management performance in native forests.

Private sector investment in Forests NSW plantations

(State Plan P1, P6)

The destruction of plantations by fires in Bathurst and Tumut coupled with increasing timber demand necessitate the planting of more than 17 000 hectares of State forests over the 2009–13 period

Forests NSW is unable to fund such a massive replanting program from traditional funding sources and maintain its current level of financial performance. Therefore, following a call for expressions of interest a short list of companies were invited to submit firm proposals to invest in re-establishing forestry plantations on Forests NSW land. The short-listed companies are currently undertaking their due diligence. Cabinet must approve the preferred proposal.

National emissions trading (State Plan E3)

Forests NSW contributed to the development of forestry emissions trading policy through the Garnaut Review and the Australian Government's emissions trading consultation process. The role of forestry in a national emissions trading scheme should be determined in late 2008.

Forests NSW prefers to see inclusion and recognition of reforestation activities from the commencement of the scheme and recognition for carbon stored in harvested wood products. Forests NSW is also seeking smooth and equitable transition arrangements for abatement certificate providers operating under the NSW Greenhouse Gas Abatement Scheme, which is due to be replaced by a national scheme in 2010.

Future directions

Forests NSW has developed a new corporate business strategy (CBS) identifying five strategic directions to guide our business growth to 2011.

DPI's vision of 'profitable, adaptive and sustainable primary industries building vibrant communities' and the Government's objectives enunciated in the NSW State Plan provided the framework for developing the strategy. The CBS will help Forests NSW achieve the vision of being 'the best and safest commercial forest manager in Australasia'.

The five strategic directions, each with accompanying projects, are:

- **focus** on excellence in profitable and sustainable forest management
- **organisational efficiency** through performance management and benchmarking, training and development and tools and systems that deliver results
- **revenue growth** through market pricing, new businesses and product diversity and forest management services
- **cost reduction** through planning and process improvement, benchmarking and adoption of best practice
- **simplification** of management systems and organisational structures and functions.

Five Year Comparison as at 30 June 2008

	2008 \$'000	2007 \$'000	2006 \$'000	2005 \$'000	2004 \$'000
Revenue*	293 795	270 550	259 747	247 546	240 634
Profit					
Trading Profit*	42 646	28 037	31 116	36 819	37 860
Significant Items and Biological Assets Rev.**	75 005	(166 357)	(19 696)	(29 163)	17 392
Profit/(Loss) from Ordinary activities (before tax)	117 651	(138 320)	11 420	7 656	55 252
Distribution to Government	1 000	16 000	26 322	32 544	13 096
Distribution payable					
Capital Expenditure	34 904	45 039	31 451	31 531	36 315
Balance Sheet					
Value of Biological Assets***	1 515 310	1 403 831	1 558 674	1 594 934	1 609 389
Total Assets	2 802 746	2 703 913	2 528 907	2 643 403	2 588 164
Borrowings	169 489	159 743	138 276	138 062	121 273
Total Equity****	1 997 641	1 921 105	1 816 670	1 842 342	2 127 270
Ratios % (excl Abnormals & MVI)					
Return on Equity*	2.13%	1.46%	1.71%	2.00%	1.78%
Return on Assets*	1.55%	1.07%	1.20%	1.41%	1.53%
Debt to Equity	8.48%	8.32%	7.61%	7.49%	5.70%
Return on Equity (including MVI)	6.14%	(7.53%)	(1.74%)	(0.17%)	2.20%
Sawlogs ('000 of cubic metres)					
Native Forest Hardwood Sawlogs	610	567	665	639	707
Plantation Hardwood Sawlogs	122	106	65	74	80
Plantation Softwood Sawlogs	2 071	1 955	1 964	1 829	1 859
Cypress Pine Sawlogs	49	58	71	94	101
Other Products	47	48	57	90	93
Total	2 899	2 734	2 822	2 726	2 840
Pulp (tonnes)					
Native Forest Hardwood	500	552	504	468	491
Plantation Hardwood Pulpwood	77	65	40	36	35
Plantation Softwood Pulpwood	1 169	1 188	983	1 042	1 045
Total	1 746	1 805	1 527	1 546	1 571

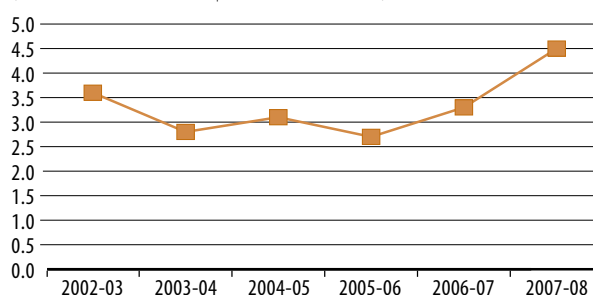
* Exclusive of forest revaluation, capital grants and superannuation fund interest and significant items ** Inclusive of forest revaluations, capital grants and superannuation fund interest

*** Biological Assets represent the commercial value of Forests NSW timber resources **** Australian Equivalents to International Accounting Standards (AEIFRS) was effective from 01/07/04

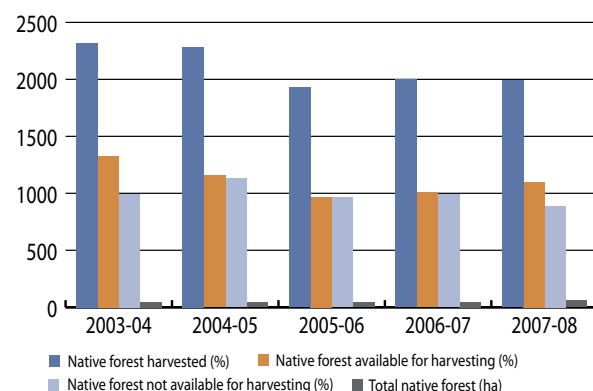
Forests NSW performance

Safety Frequency Rate

(Number of Lost Time Incidents per 200 000 hours worked)



Native Forest Harvested (area in '000 ha)





Case study: Tackling truck safety

Forests NSW recognised the need for action following a series of accidents involving log haulage operators on contract to the organisation. The first step was to establish a high-level internal group to review accidents over the previous five years and the second to implement the group's detailed recommendations on safety improvement.

Safety training officer Andrew Nicolls was duly appointed as implementation coordinator to lead a team working with around 300 drivers and their employers to introduce safer work practices and better accident investigation and reporting.

'The implementation strategy has four or five strands,' says Andrew, 'one being to hold face-to-face training sessions to address driver behaviour issues.'

'Training emphasises the small margin of error for log truck drivers and promotes a few simple messages: maintain truck stability when loading and unloading, be aware of the effect of drugs or alcohol, don't speed, and manage distractions such as mobile phone calls.'

While initially wary of how safety training would be received, Andrew says he has been **'blown away'** by the response. *'For example, around 50 drivers have registered for a Saturday session in Bombala in early July 2008.'*

To date, training has been delivered in four of the state's eight regions. Posters and fact sheets reinforce the messages delivered at training. These are available for use at tool-box talks and allow contractors to highlight safety issues to drivers.

While the current program is working well, there are some interesting plans for the future including the use of a truck simulator in training. An application has already been made for a WorkCover grant to meet the costs of a trial.

Discussions are also being held with TAFE regarding mandatory additional competencies for haulage drivers. As haulage truck safety is a nation-wide issue, other states will undoubtedly be watching developments with interest.