



Vote Agriculture and Forestry

Report in relation to selected Non-Departmental
Appropriations for the year ended 30 June 2009

**Presented to the House of Representatives pursuant to
Section 32A of the Public Finance Act 1989**

Introduction

This report covers Vote Agriculture and Forestry non-departmental output expense Management of Crown Forestry Assets.

The Ministry of Agriculture and Forestry (MAF) administers the Crown's interest in forestry leases on Māori land, residual Crown forests and other forestry assets. Specifically MAF manages the Crown's interest in:

- 39 forests with a total planted area at 30 June 2009 of 63,128 hectares.
- 13 afforestation leases where Crown forest land has been leased to other parties for forestry purposes.
- Haparangi Trust (MAF formally ceased all involvement in Haparangi on 15 December 2008 after the Crown's shares were transferred to the Māori owners).
- A portfolio of 19 forestry encouragement loans held by 6 local authority entities as at 30 June 2009. These loans were established under the Forestry Encouragement Loans Regulations (1967).

Non-departmental outputs purchased by the Crown under this appropriation relate to the day to day operational management of the Crown forest estate which is contracted to six forest management companies.

Business and strategic planning, audit and administration functions related to these forest assets are carried out by MAF staff and funded by departmental appropriations.

STATEMENT OF SERVICE PERFORMANCE

NON-DEPARTMENTAL OUTPUT EXPENSES

MANAGEMENT OF CROWN FORESTRY ASSETS

Scope of Appropriation

Payments for forest and asset management of Crown forests established on both Crown-Owned and leased Māori land and 13 leases of Crown-Owned land to other parties for forestry purposes.

Intended Impacts, Outcomes or Objectives

The effective and efficient management (i.e. cultivation, pruning, harvesting) of the Crown's forests.

Description of Activities

This output expense covers payments and revenue for forest and asset management of Crown forests established on both Crown-owned and leased Māori land and leases of Crown-owned land to other parties for forestry purposes.

Payments made include:

- pruning and thinning;
- fertilising;
- protection from fire and disease;
- the harvesting of forest produce and replanting of harvested areas;
- technical support;
- land rates;
- stumpage payments.

Revenue is earned from land rental and sales of forest produce.

Service Performance – Non-Financial

Performance Standards	Performance Results
Management of 25 forests (33 887 net stocked hectares).	<p>Management has been undertaken in accordance with lease provisions for 16 Crown lease forests comprising 24 332 net stocked hectares of forest and 23 Crown forests comprising 38 796 net stocked hectares planted on Crown forest land (39 forests and 63 128 net stocked hectares respectively).</p> <p>The net stocked area increased during the year following the Crown's purchase in late 2008 of two forests in the Bay of Plenty and on 1 January 2009, the transfer of forests formerly administered by the SOE Timberlands West Coast Ltd to the Ministry of Agriculture and Forestry.</p> <p>In accordance with agreed lease variations a partial surrender of harvested areas in the Lake Taupo and Rotoaira leases took place and, in accordance with a negotiated settlement of a claim, responsibility for the management of Haparangi A4 forest transferred to the new owners.</p> <p>The enactment of the Te Roroa Claims Settlement Act 2008 saw some forest area returned to Te Roroa.</p> <p>Finally, area clearfelled at Pureora Central forest was not replanted in accordance with conditions of management.</p>
Management of 13 forestry leases where the Crown owns the land.	<p>During the year the Crown carried out management activities on these properties as follows:</p> <ul style="list-style-type: none"> • Five-yearly rent reviews for Kaharoa, Mt Hutt and Speeds Valley leases.

Performance Standards	Performance Results
Manage contracts to complete 6 400 hectares of silvicultural tending.	<ul style="list-style-type: none"> • Further work on transferring about half of the Whakatu lease area to the Department of Conservation. • Further work on the disposal process for two surplus properties (Mt Hutt which is subject to a right of first refusal in favour of Ngai Tahu, and Kawhia). <p>Harvesting commenced in the Koromiko stumpage share lease ahead of expiry of the lease in November 2010.</p>
Manage contracts to supply 1 288 200 cubic metres of logs.	<p>During the year, 5 742 hectares of silvicultural tending were completed. The reduced programme was a direct consequence of:</p> <ul style="list-style-type: none"> • Harvesting activity not commencing in some forests due to poor markets with a consequent reduction in land preparation and re-establishment. • The timing of some replanting operations over winter falling into the subsequent (2009/10) financial year. • Less weed growth in young stands leading to a reduced releasing programme. • Less spraying required for dothistroma needle blight control than was budgeted. • Less weed growth in young stands leading to a reduced releasing programme.
Legal and technical support services relating to the Ministry's role as vendor agency for the Office of Treaty Settlements in respect of any Crown forests on Crown land managed by the Ministry that are used for Treaty of Waitangi claim settlement purposes.	<p>During the year 1 231 741 cubic metres of logs were produced from harvesting operations in 18 forests. Harvesting operations were delayed or halted in four forests as a consequence of market issues.</p> <p>Assistance to the Office of Treaty Settlements (including provision of "due diligence" information) in relation to the use of Crown forest land in the settlement of the Ngati Apa, Te Tau Ihu, Whanganui (southern cluster) and Ngati Porou Treaty of Waitangi claims.</p> <p>A good working relationship has developed with Te Roroa in implementing their October 2008 settlement.</p>
Management, silvicultural and timber production work programmes, as required by lease agreements and management plans, are completed under contracts which clearly prescribe work methods, acceptable standards and costs.	<p>Management has been undertaken in accordance with lease provisions and management plans on each of the forests managed by the Crown.</p> <p>Six forest management contract companies were contracted to deliver operational forestry services. Contracts were renegotiated at the start of the year using benchmark prices based on the 2008/09 work programmes.</p>
All completed work is audited using acceptable sampling procedures and a quality management system.	<p>Three regionally based staff carried out audits of operations and site inspections on a planned basis in accordance with an internal quality management system.</p>
Forests are independently audited on a three-yearly cycle to review management performance.	<p>The forests listed below had their management reviewed by an independent auditor to ensure that they were being administered and managed in a manner consistent with both the terms and conditions of the lease and other agreements and with prudent forest management practice. No significant shortcomings were noted and all seven forests were assessed as being managed to an acceptable industry standard.</p> <p>Forests independently reviewed during the year were:</p> <ul style="list-style-type: none"> • Lake Taupo Crown Lease Forest

Performance Standards	Performance Results
	<ul style="list-style-type: none"> • Rotoaira Crown Lease Forest • Whanganui Forest • Crown Enclaves Forest • Pureora Central Forest • Wairakei Forest • Waikune Forest
All lease rents are paid on time and any reviews of rent or stumpage share	<p>All annual lease rents or stumpage shares where the Crown is the lessee or the lessor were paid or received on time. Five-yearly rent reviews were carried out as follows:</p> <ul style="list-style-type: none"> • Crown as lessee – Te Manawa-o-Tuhoe, Pouto 2F, Waipiro A5 and Kahotea Y. (The new Kahotea Y rent was amicably settled with the Māori Trustee after a dispute over the review). • Crown as lessor – Kaharoa, Mt Hutt and Speeds Valley.
Fixed cost of \$50 per gross hectare.	A fixed cost of \$24.71 per hectare was achieved. The savings principally relate to being able to spread fixed costs over a larger area following the acquisition of new forests in the Bay of Plenty and on the West Coast.
Average stumpage price of \$31 per cubic metre for logs.	An average stumpage price of \$27.75 for logs was achieved. This was lower than forecast due to difficult market conditions across all log grades and the acquisition of forests (on the West Coast) that return a low stumpage as a consequence of high production costs and distance from markets for a number of log grades.
Management fee of \$20 per gross hectare exclusive of harvesting and re-investment.	A management fee of \$21.96 per hectare exclusive of harvesting and re-investment was achieved. This is slightly higher than forecast as a consequence of acquiring forests on the West Coast that are more complex to manage than other forests administered by the Ministry.

Service Performance – Financial

	2007/08 Actual \$000	2008/09 Estimates \$000	2008/09 Supp Estimates \$000	2008/09 Actual \$000
Expenditure (funded by the Crown)	65 308	77 253	83 245	84 828
Crown revenue (sale of forest produce)	85 465	101 228	97 254	98 254

Comment on Variance

On 1 January 2009, the operations and contractual obligations of Timberlands West Coast Ltd were transferred to MAF. Included in the contracts transferred was a forestry right between the Crown and Ngai Tahu with a fixed term to 2030. The forestry right is considered onerous as it is non-cancellable and under current market conditions the unavoidable costs of meeting the contract exceed the economic benefits to be received under it. Recognition of a provision for the onerous contract has resulted in actual costs for 2008/09 exceeding the appropriated by \$1 583 000.

