



our common ground  
**Media Release**

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## **Forestry Tasmania's underperformance deprives Tasmania of 500 nurses, teachers and police.**

*New financial analysis released by Our Common Ground shows that chronic and sustained underperformance by GBE Forestry Tasmania is depriving Tasmania of funding for 500 nurses, teachers and police.*

With the jobs of one in ten public servants targeted for cuts in the coming state budget, a new report on the financial performance of the Government Business Enterprise, Forestry Tasmania sheds light on one of the causes of the budget revenue shortfall.

Judy Tierney of Our Common Ground said "The report 'A target Return on Equity for Forestry Tasmania' prepared by actuary Naomi Edwards shows that underperformance by Forestry Tasmania costs the state \$43 million in revenue each year — or the equivalent of jobs for 500 nurses, teachers and police."

Based on Tasmanian Treasury's Return on Equity (ROE) target for Government Business Enterprises, the report finds that Tasmanians would have reasonably expected a return of \$43 million for the 2010-11 financial year from Forestry Tasmania. Instead, the return was zero.

The report also compares the performance Forestry Tasmania achieves from its 712,000 Ha of native and plantation forests with that of Forestry South Australia from around 93,000 Ha of plantations.

Report author Naomi Edwards says "Published annual returns showed that Forestry South Australia returned \$45 million to the state in 2010 from a smaller revenue and sales base than Forestry Tasmania."

"In contrast, Forestry Tasmania's return to the state has been zero for three of the last four years, and was only \$1.3 million in the year in which it was positive."

Judy Tierney adds "This situation is clearly not in the long-term interests of Tasmanians, timber workers or forests. "

"That's why Our Common Ground believes Tasmania can do better than wood chipping our native timbers. Forestry South Australia shows that it is possible to create a healthy return to the state budget, contribute to funding our nurses, teachers and police and create lasting timber jobs by investing and diversifying in a range of plantation timber products. "

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# HIGHLIGHTS



HIGHLIGHTS	Indicator	2009-10	2008-09	Measure
Return to Government	Dividends and tax expense	44.8	23.2	\$m
	Return on equity (incl. revaluations)	11.5	9.3	%
Customer satisfaction	Open and fair tendering system	Yes	Yes	
	Significant complaints	0	1	
Ethics in business	Taxes paid	13.0	8.0	\$m
	Prevention of fraud	No cases detected	No cases detected	
Marketing and Sales	Volume of timber harvested from ForestrySA plantations	1,761	1,613	m3 '000
	Proportion of softwood logs sold as sawlog or plylog	56	51	%
Productivity	Land available for timber production	93,746	93,343	ha
	Plantation established (new and replanted)	3,287	3,307	ha
	Survival rate of newly planted stock - Green Triangle and Ranges	86.3	88	%

Table #6 : Economic highlights

**FINANCIAL PERFORMANCE**

	<b>Bench Mark</b>	<b>2009-10</b>	<b>2008-09</b>	<b>2007-08</b>	<b>2006-07</b>
<b>Financial Performance</b>					
Profit before valuation adjustments, capital income, tax		1 265	18 346	8 567	5 112
EBIT (\$'000s)		1 297	18 467	9 750	6 336
Operating margin *	>1.0	1.01	1.11	1.11	1.08
Return on assets **		0.2%	2.0%	1.9%	1.5%
Return on equity **		0.3%	3.2%	3.1%	2.4%
<b>Financial Management</b>					
Debt to equity		14.8%	7.0%	7.4%	7.0%
Debt to total assets		5.8%	4.2%	4.6%	4.4%
Interest cover	>2	1	8	4	3
Current ratio	>1	1.23	1.52	0.90	0.98
Cost of debt	6.9%	4.7%	5.6%	6.5%	6.4%
Debt collection	30 days	85	63	50	41
Creditor turnover	30 days	41	38	38	42
<b>Returns to Government</b>					
Dividends paid (\$'000s)		0	0	0	1 297
Dividend payout ratio	50%	0.0%	0.0%	0.0%	8.9%
Dividend to equity ratio		0.0%	0.0%	0.0%	0.2%
Income tax paid (\$'000s)		0	0	0	0
Effective tax rate	30%	0.0%	0.0%	0.0%	0.0%
Total return to the State (\$'000s)		0	0	0	1 297
Total return to equity ratio		0.0%	0.0%	0.0%	0.2%
<b>Other Information</b>					
Staff numbers (FTEs)		461	483	483	502
Average staff costs (\$'000s)		57	54	66	60
Average leave balance per employee per FTE (\$'000s)		13	12	12	12

\* Operating margin for 2007-08 and 2008-09 included an estimate for costs attributed to non-commercial zones estimated based similar rate of increase from 2008-09 to 2009-10.

\*\* Based on operating result before Costs attributable to non commercial zones, tax, asset and superannuation adjustments.

**Comment**

Profit, EBIT Operating margin, the Return on assets and Return on equity are calculated on the result before costs attributed to non commercial zones, accounting valuation adjustments, TCFA capital grant income, superannuation and tax. The return on equity from 2006-07 to 2008-09 would approximately double if the value of land (\$277.127m) was deducted from the equity balance.

Debt to equity and Debt to total assets ratios deteriorated in 2009-10 due to the impact of biological asset valuation adjustments and impairment of land which impacted both the asset and equity balances at 30 June 2010. During the year, it was noted Forestry was in breach of a financial leverage covenant detailed in its Master Loan Facility Agreement with TASCORP. The Treasurer provided TASCORP with a letter of comfort, provided to allow sufficient time for Forestry and TASCORP to negotiate a revised set of loan covenants suitable to both parties.