

Statement of Corporate Intent

2005/06

October 2005



Agreement

This Statement of Corporate Intent describes how the Forest Products Commission intends to achieve its financial, environmental and social objectives in the 2005/06 financial year. This Statement meets the requirements of the *Forest Products Act 2000* and represents the agreement between the Minister for Agriculture and Forestry and the Forest Products Commission as to the expected level of performance from the Commission during the year.

The Statement of Corporate Intent is consistent with the Strategic Development Plan which provides a five-year view of the Commission's planning.

Within its one-year framework, the Statement of Corporate Intent provides an overview of the main functions of the Forest Products Commission, the key factors affecting operations, business objectives, resources required and performance monitoring and reporting.

The Statement may be amended upon authorisation from all parties. This provision will allow major unanticipated issues to be addressed and places an onus on the parties to communicate any significant changes.

In accordance with the *Forest Products Act 2000*, together with the Treasurer's concurrence, the Minister for Agriculture and Forestry and the Commission agree to the content of this Statement of Corporate Intent.



A/MINISTER FOR AGRICULTURE AND FORESTRY

CHAIRMAN

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Foreword

The Statement of Corporate Intent 2005/06 (SCI) has been developed collaboratively by staff and endorsed by the FPC's Board of Commissioners.

The SCI provides the specific objectives of the FPC and is complementary to the Strategic Development Plan which provides an overarching direction and objectives of the FPC for the next five years (2005/06-09/10). It is from the SCI that more detailed, tactical business plans at Divisional and Branch level are developed to achieve our objectives and report on performance.

The key initiatives of the Commission in the SCI are to:

- expand new tree farm estates in agricultural areas to enable sustainable development of regional timber processing industries;
- increase softwood log production from 800,000 to achieve a five-year target of 1,200,000 tonnes;
- utilise more forest residues for furniture, craft and other local industries; and
- sustain Western Australian sandalwood as a high-value business.

Where we are Now

Since its establishment in November 2000, the operating conditions of the FPC have changed dramatically. The State Government's *Protecting our Old Growth Forests Policy*, introduced in 2001 and reflected in the Forest Management Plan of 2004-2013, capped the harvest of jarrah and karri sawlogs at 185,000 cubic metres compared to 700,000 cubic metres under the previous Forest Management Plan.

This change had a major impact on the FPC and also resulted in a restructure of the timber processing industry.

The native forest industry's operating environment has stabilised, with further growth opportunity in new markets for log residue of the harvesting process. Contracts for the supply of native timbers and their products are secure for the next nine years of the Forest Management Plan.

The sandalwood industry is operating to sustained valuable local industries as well as overseas markets. The management of this unique resource is helping to bring sustainable land management practices to the pastoral and other arid areas where there are significant factors degrading the environment.

With the decrease in the amount of native timbers available, the Commission has shifted its focus to new plantation based industries. This requires the growing of a new resource. As with the establishment of the Tasmanian bluegum industry in the 1980s, Government provided the leadership, and the private sector embraced this new industry, which has expanded into a major economic driver for the State.

The FPC is now focussing on establishing new plantations in low to mid-rainfall areas. The commercial growing trees in these areas is unlikely to be viable on the value of the timber alone and will need to be supplemented by other new ways of generating income such as salinity credits and carbon trading.

The extension of the FPC's operations into low to mid-rainfall areas will increase the State's timber resource and provide the potential for the development of new processing industries. One of the major

drivers is to provide real environmental benefits by addressing salinity and waterlogging issues. The FPC has also developed wide ranging industry plans for four regional areas of Western Australia, which identify the best species for local growing conditions, and establishes plantation targets to stimulate the development of downstream processing. The implementation of these industry plans will result in increased employment opportunities for regional areas and resulting social benefits.

Our Changing Environment

The Commission operates in a dynamic environment which is influenced by domestic and global market forces and evolving Government policies relating to water use, salinity, climate change and forestry.

While some of these factors can be accounted for in contingency planning, changes in the operating environment of the FPC present real challenges to the success of the FPC meeting its objectives.

At the core of the FPC's business is its ability to meet the timber supply contracts it has in place with its customers, to ensure that local industries can continue to operate. The delivery of the resource to customers involves contractors with which the FPC also enters into agreements for services, such as harvesting and transportation. In conducting these operations on State forests, FPC is required to meet conditions of the Forest Management Plan, many of which are more stringent than previously applied.

As a Government Trading Enterprise (GTE), the FPC does not attract funding from the State Government from general revenue, but meets its operating costs from the income received from its commercial activities. To embark on new planting programs, or to acquire additional land for plantations, the FPC needs to attract external investment.

Attracting external investment is a key strategic objective of the FPC. Identifying potential investors, and developing a program to suit the requirements of individual investors, is an intensive and time-consuming effort that may take years of planning and due diligence before any new planting can commence. The lack of certainty regarding the availability of investment has a major impact on planning throughout the Commission, from the nursery and plantation operations to contracts and finance branches.

The FPC sees the opportunities for forestry in helping offset carbon emissions. While Australia is not a signatory to the Kyoto Protocol, many companies, particularly large carbon emitters, are looking at carbon-friendly options to offset these emissions. The FPC is looking to meet this need by developing forestry products ranging from provision of forest management services to encouraging investment in forestry.

Recognition of all non-commercial benefits of these programs (e.g. salinity) may be required for the success. External funding sources also include State or Federal monies available through programs such as National Action Plan (NAP). The FPC has been vigorously pursuing NAP funding for more than three years. The success of these efforts will have a major impact on the FPC's ability to deliver its objectives to establish tree farming in low to mid-rainfall areas.

The FPC also has a unique role as a GTE which is commercial in its focus and its role as an important research arm to achieve State Government objectives for environmental issues such as waterlogging and salinity.

The FPC's Technical Services Branch is extensively involved in researching the environmental benefits of planting trees. Much of this effort has little immediate commercial return, but the

Commission is committed to this research, along with other activities for the public good, for which it receives no financial compensation from Government. This presents a challenge to the FPC, which by its nature is intended to generate a dividend to Government, while at the same timing undertaking activities that do not present a financial return.

Our Business – What we do

The Forest Products Commission, Western Australia was established in 2000 as a State Government trading enterprise responsible for managing the State's forest resources in the best possible way to maximise social, environmental and economic outcomes. The FPC:

- harvests and sells logs and forest products from State-owned native forests;
- harvests and sells logs and forest products from State-owned plantations;
- regenerates (re-plants) State-owned native and plantation forests;
- manages trees on farms in cooperation with land owners;
- provides advisory and plantation management services to plantation investors;
- identifies new sources of funding to encourage plantations in low to mid-rainfall areas;
- identifies new and better ways to grow and harvest forests and to maximise the value of all forest products;
- provides strategic advice to Government regarding forestry in Western Australia; and
- works with industry to find high-value uses for Western Australian timbers that create more jobs.

The FPC's Commitment to a Sustainable Future

The Western Australian Government in September 2004 released a "Sustainability Code of Practice for Government Agencies" which provides the following definition of "sustainability".

"Meeting the needs of current and future generations through an integration of environmental protection, social advancement and economic prosperity".

The FPC has adopted the above definition for the purposes of defining its sustainability strategies.

Major Planned Achievements for 2005/06

The year 2005/06 is expected to be a year of significant movement in the tree farming industry, linked both to market trends in the global economy, and to domestic strategies for natural resource management. The new Forest Management Plan 2004-2013 provides stability in the restructured native timber and furniture industry. With this background, the major achievements that are planned for 2005/06 are:

- Secure major increases in external investment for tree farm projects aligned with regional natural resource management (NRM) strategies.
- Finalise and implement regional plantation plans in consultation with communities, stakeholders and industry.
- Work towards implementation of the Australian Forestry Standard.
- Continue to enhance the Commission's Triple Bottom Line reporting system to measure, monitor and report on the FPC's social, environmental and economic performance.

Social

The FPC's suite of programs and products provide social outcomes as well as financial returns.

The FPC will establish a plantation resource in rural areas sufficient to attract infrastructure and provide opportunities for employment in regional communities.

Environmental

The FPC will undertake its activities strategically using EMS processes that optimise benefits for the environment and reduce impacts from actions. Its activities will play a key role in protecting the State's land, water and biodiversity assets through the provision of environmental services which include the following:

- reductions in rising groundwater and salinity;
- improvement of water quality;
- important indirect or downstream benefits to biodiversity by reducing the threat of rising water tables on wetlands or reserves of remnant vegetation.
- provision of renewable energy sources; and
- provision of carbon sinks to offset greenhouse emissions.

Economic

The FPC will work in partnership with industry, the community and other Government agencies to establish a long-term, viable timber industry. This will be achieved through sound management of existing resources, actively pursuing future investment opportunities, and seeking new economic and policy mechanisms to support the industry in the longer term.

The FPC's overall economic focus is to:

“Achieve sustained growth; profitability and longevity for the industry and FPC”

Vision Statement

To be a leader in achieving an environmentally sustainable and commercially viable forest products industry providing economic and social benefits to the people of Western Australia.

Mission Statement

To contribute to Western Australia's economic and regional growth by:

- *developing the sustainable use of the State's plantation and native forest resources;*
- *promoting innovation and local value adding for these resources; and*
- *achieving appropriate returns to the State for the use of publicly owned and Forest Products Commission-managed plantation and native forest resources.*

Values

- | | | |
|-------------------------------------|---|--|
| Achievement | : | We will deliver good service. |
| Innovation | : | We will be creative and innovative in meeting our objectives. |
| Leadership | : | We will provide leadership to assist in the development and restructure of the timber industry. |
| Customer Focus | : | We will understand and meet our customers' needs. |
| Environmental Responsibility | : | We will adhere to sustainable management in accordance with the Commission's Management of the Environment Policy. |
| Accountability | : | We will adhere to processes that are understood and measured. |
| Integrity | : | We will act honestly and ethically in accordance with the Commission's Code of Conduct. |

Key Elements

The key elements of the five-year strategic direction for the Forest Products Commission are:

Sustainability

- delivering a sustainable forest products industry in Western Australia;
- maximising the sustainable use of forest residues, including waste reduction and value adding; and
- being a recognised provider of environmental services ¹ and benefits.

Government Policy

- creating a growing plantation business with a reduced native forest activity;
- achieving returns within the limits set by Government, through planned investment in and use of our renewable resources, both native forests and plantations;
- addressing the social and economic impacts of old growth forests policies;
- ensuring effective communication with government, industry and community;
- consolidating forest products activities and relationships across government agencies; and
- measuring outcomes and demonstrating financial and non-financial dividends to the State.

Profitability

- being commercially strong and market focussed;
- achieving a profitable, resource-based organisation with a clear market orientation;
- fully utilising the available forest resources;
- creating new business areas and diversifying into new markets;
- developing a strategic marketing plan for our products;
- providing a broader revenue base; and
- securing greater control of our resources.

Leadership

- being the leader in the development of a sustainable timber industry;
- achieving international recognition for good practice; and
- gaining acknowledgement for the wider benefits we deliver – social, economic and environmental.

Organisational Style

- being an innovative organisation that moves in new directions and operations in non-traditional ways;
- demonstrating a clear understanding of our core business;
- focusing on our vision, mission and values;
- developing our intellectual capital;
- achieving recognition as a quality employer; and
- ensuring health and safety in the workplace.

¹ Environmental services of plantations include the following values or outcomes:

- objectives and initiatives listed under the environmental section.

Objectives, Strategies and Performance Targets

The *Forest Products Act 2000* requires that the Statement of Corporate Intent must specify an outline of objectives, the proposed arrangements to facilitate those objectives and performance targets and other measures by which performances may be judged. In accordance with section s31(2)(a) objectives, strategies (s31(2)(b)) and performance targets (s31(2)(d)) are defined for the year 2005/06.

The *Forest Products Act 2000* establishes two objectives that are to be included in the Statement of Corporate Intent:

1. the long-term viability of the forest products industry;
2. the application of the principles of ecologically sustainable forest management set out in section 12(2) (of the *Forest Products Act 2000*) in the management of indigenous forest products located on public land;

and also defines the principle that the Commission must try to ensure that a profit that is consistent with planned targets is made from the exploitation of forest products whilst ensuring that these two objectives are met.

These broad objectives, and the principle relating to profit, have been further developed to provide clear goals, strategies, objectives and performance targets. They have also been aligned to be consistent with the Government's forest policy.

Goals, Strategies, Objectives and Performance Targets

Goal 1 Plantations

As a result of the issues discussed relevant to business environment, plantations have become the dominant business activity of the FPC in terms of volume and the most significant opportunity for growth. Within the plantation business, two separate strategies are developed to grow new business in tree farming, and to increase the returns from existing or mature plantation estates.

The overall goal for plantation business in the FPC is:

To develop the FPC's tree farm and plantation business providing forest products and environmental services at scales relevant to market opportunities and environmental needs.

Strategy 1.1 New Tree Farms and Plantations

This strategy encompasses the expanding tree farm and plantation estate where processing industry has not yet developed to any significant level. The opportunities for expanding this estate are large, but investment based on timber alone in areas of low to medium rainfall, remote from existing markets, is not likely to be possible. In this plan, the FPC is pursuing a scenario of integrated investment based on environmental services (watertable control, including salinity, carbon sequestration), plus forest products (timber, fibre, biomass, oils etc.). It is noted that controlling water tables is a tool for protecting biodiversity, water resources and community infrastructure at a regional scale.

The new tree farms strategy contemplates high levels of investment, partly from salinity action by governments, and increasingly from private sector investment, both directly in timber and in carbon values, and indirectly through investment schemes.

The strategy adopted for this area of business is:

To establish viable tree farm estates within identified cells to enable sustainable development of regional timber processing industries and to deliver significant regional environmental services.

Objectives

- For each cell, a tree farm estate of a scale that will support a competitive processing industry in the quickest feasible timeframe.
- Maximised contribution to salinity and watertable control consistent with regional NRM strategies.

Financial

Target 1 Actual expenditure not to exceed approved funding.

Process

Target 1 **New plantation establishment²** Funds secured and areas established in each year by region.

Planting Regions

Year	Funding Source	Midwest	South West	Sawlog Recovery ³	Esperance	Total
2006	State/NAP	1500	500	1000	1500	4500
	Private		2375	2725		5100
	Total	1500	2875	3725	1500	9600

Target 2 **Establishment success** Less than 10% of the planted estate requires infilling each year.

Target 3 **Environmental Management System** 100% of EMS incidents are closed on time.

Customer

Target 1 **Industry development** Industry development plans completed for all planting regions in 2005/06, in consultation with community, industry and government stakeholders.

Target 2 **Environment** Monitoring program for watertables in tree farms established in 2005, with annual reporting of impact.

Learning and Growth

Target 1 **Research and development** Annual review of investment in and reporting on research programs to align with strategic directions.

Target 2 **Staff skills** See Strategy 3.3 – Corporate Services (page 16).

² The achievement of planting levels set in Target 1 is dependent upon the Commission securing additional funding of \$2.090 M, \$1.640 M, \$1.340 M, \$1 M and \$1 M in 2005/06, 2006/07, 2007/08, 2008/09 and 2009/10 respectively.

³ Areas identified by the Department of Agriculture which have environmental issues requiring resolution that improve water quality in potable water catchments, e.g. Collie, Warren and Tone.

Strategy 1.2 Mature Plantation Estate

This strategy relates to established plantations (largely *Pinus radiata* and *Pinus pinaster*) from Wanneroo to Manjimup) where both the resource and its processing industry are significantly mature. The strategic direction is one of consolidation and maximising the returns from the plantation asset. Some plantations within this estate will, because of public land use decisions, be removed from plantation production. In particular, Gnangara, Pinjar and Yanchep are not currently planned to be replanted after clearfell, and be replaced by new tree farm estate, and Peel and Hamel may also be removed from plantation land use. The strategy adopted for the remaining area under plantation is:

To maximise the commercial return for FPC's existing products, and where viable expand the resource base supplying the established industry.

Objectives

- Maximised log production and financial return from the plantation estate in both the short and long-term.
- A secure plantation estate in both the short and long-term, compatible with other land use objectives.
- An increase in private investment in pine plantations.

Financial		
Target 1	Sales	Plantation product sales increase to 1.2 million tonnes by 2007
Target 2	Plantation estate	FPC <i>P. radiata</i> estate increase by 2,500 hectares by 2010 (area included in Strategy 1.1 New Plantations)
Target 3	Returns	Sawlog stumpage returns improve by 20% by 2010
Target 4	Operating performance	Actual financial performance meets or exceeds, approved targets (refer to Appendix C5, page 28).
Process		
Target 1	Establishment success	Less than 10% of the planted estate requires infilling each year
Target 2	Environmental Management System	100% of EMS incidents are closed on time
Customer		
Target 1	Deliveries	100% of the annual order delivered
Learning and Growth		
Target 1	Staff skills	See Strategy 3.3 – Corporate Services (page 16)

Goal 2 Native Forests

The FPC's access to forest product resources from native forest on public lands includes a range of species from south-west forests, together with sandalwood and a range of timbers from the arid zones of the State. Given the nature and scale of the separate resources and the different issues involved, these resources are covered by separate strategies for development. In each case, the focus is on high value end products, with an emphasis on employment and manufacturing within the State of Western Australia. This is reflected in the goal:

To develop a profitable native forest products business to produce timber for the high value manufacturing industry in Western Australia.

Strategy 2.1 South-West Forests

This strategy covers the jarrah, karri, marri and associated species in the south-west, and an industry that has undergone a major restructuring and downsizing as a result of reductions in projected timber supplies. Sustainable yield levels for the period 2004-2013 have been recently approved under a new Forest Management Plan. The following strategy, targets and initiatives are based on the approved sustainable yield levels of 131,000 cubic metres and 54,000 cubic metres per annum of jarrah and karri first and second grade sawlogs respectively, plus the quantities of other grades and species relevant to this level of cut.

The strategy for south-west forests under this scenario is:

To maximise employment in relevant industries and communities through downstream processing of south-west timbers.

Objectives

- A viable and sustainable industry based on downstream processing.
- A FPC business providing timber to industry in a profitable manner matched to the resource available.
- Maximum utilisation and value adding of all timber harvested.

Financial

Target 1	Sales	<ul style="list-style-type: none">• Contracts for sale of 50% of the available gross volume by 2006, rising to 60% by 2010• Fully achieve contract commitments by delivering 100% of the available first and second grade sawlogs over any three year period
Target 2	Operating performance	Actual financial performance meets approved targets (refer to Appendix C5, page 28).

Process

Target 1	Regeneration	Regeneration of harvested areas within time limits as specified in the Forest Management Plan
Target 2	Forest access	Access forest areas without exceeding soil disturbance thresholds
Target 3	Environmental Management System	100% of EMS incidents are closed on time
Target 4	Value adding and Employment	Contract compliance monitored and corrective action taken as necessary

Customer

Target 1	Deliveries	100% of deliveries against annual orders
Target 2	Community consultation	Consultation on 100% of areas harvested

Learning and Growth

Target 1	Staff skills	See Strategy 3.3 – Corporate Services (page 16)
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Strategy 2.2 Arid Forests

WA sandalwood remains a stable, high-value resource, used both for domestic processing for sandalwood oil (used in perfumes and pharmaceuticals) and mosquito sticks and for export markets (traditionally incense). The strategy for this resource is:

To expand Western Australian sandalwood and desert timbers as a high-value business, by demonstrating the sustainability of the native harvest and investing in plantation development.

Objectives

- Consolidation and expansion of existing and new markets to provide stability and diversity, increased profits and appropriate levels of local value adding.
- Demonstrate the maintenance of sustainability.
- Expansion of the resource.
- An industry processing 5,000 to 10,000 tonnes of log material for high value niche markets.
- Operations able to deliver forest products from woodland areas at a competitive price.

Financial		
Target 1	Operating performance	Actual financial performance meets approved targets (refer to Appendix C5, page 28).
Process		
Target 1	Utilisation	Maintain utilisation of roots at least at 7% of total green production per annum
Target 2	Sustainability	<ul style="list-style-type: none"> • 100% of green harvest operations receive regeneration treatment • Complete industry sustainability plan by 2007
Target 3	Environmental Management System	100% of EMS incidents are closed on time
Customer		
Target 1	Local industry	Supply at least 50% of green production for local processing
Target 2	Deliveries	98% of deliveries to specification
Target 3	Community consultation	Consultation on 100% of areas harvested
Target 4	Market	Achieve sales of 5,000 tonnes of desert timbers by 2010
Learning and Growth		
Target 1	Staff skills	See Strategy 3.3 – Corporate Services (page 16)

Goal 3 Overarching and Support Services

A number of strategies are common to the achievement of both plantations and native forest operational goals, and their directions are dependent on the directions achieved for the primary goals. The goal established, therefore, for overarching and support services is to:

Provide the necessary services to support goals 1 and 2.

Strategy 3.1 Plant Propagation Centre

The Plant Propagation Centre (the Nursery, Seed Centre and Tree Breeding Sections) strategy is to support FPC and other tree planting programs by providing seed and high quality propagules through the deployment of improved genetics resources, “state of the art” technology, aiming for a high level of operating efficiency, recognising environmental and social obligations and maintaining good relations with its customers.

Objectives

- The Nursery Section develops systems to propagate a range of tree and plant species consistent with the aims of the FPC to enhance the timber industry in Western Australia, provide high quality tree species that are adapted to a range of environments and to supply external clients with products.
- The Seed Technologies Section provides high quality seed to the Nursery and external customers and develops methods of deploying genetically improved material.
- Tree Breeding programs are designed to provide genotypes consistent with the commercial, environmental and social objectives of FPC tree planting programs.

Strategy 3.2 Forest Practices

The Forest Practices Office and the Sustainable Forest Management Section will ensure operational systems are maintained and enhanced by developing silvicultural and environmental procedures aligned to identified significant risks, good silvicultural management while adhering to standards and legal obligations.

Objectives

- The Forest Practices Office will develop operational controls (codes/manual/procedures), monitor the implementation of operational controls and ensure that key documents are controlled.
- The Sustainable Forest Management Section will develop a cooperative relationship with the Department of Conservation and Land Management (CALM) to implement the requirements of the Forest Management Plan, the Forest Products Act and the CALM Act.
- The Forest Practices Office will implement and maintain the Environmental Management System to the ISO14001 standard.

Financial		
Target 1	Annual operating profit	Operating result meets or exceeds target performance over period 2005/06 – 2009/10.
Target 2	Commercial benefits	Tree breeding programs will demonstrate commercial viability over the period 2005/06 – 2009/10.
Process		
Target 1	Environmental management	<ul style="list-style-type: none">• Maintain certification to ISO14001 standard.• EMS process is reviewed annually.
Target 2	Production capacity	Production continues to increase towards nursery capacity.
Target 3	Asset management	<ul style="list-style-type: none">• Seed sales meet or exceed targets over 2005/06 – 2009/10.• Seed collections meets target for 2005/06 – 2009/10.
Target 4	Operational controls	Codes, manuals and procedures are developed and reviewed regularly.
Customer		
Target 1	Environmental management	New genotypes will not knowingly be deployed that exhibit weediness or reduced tolerance to pests and disease.
Target 2	Quality assurance	100% of product sales meet stated quality standards.
Target 3	Seed delivery	100% of seed delivered on time.
Target 4	Forest management	FMP implemented in native forests and plantations.
Target 5	Genetic quality	New genotypes will progressively demonstrate improvements in commercial and environmental traits over the period 2005/06 – 2009/10.
Learning and Growth		
Target 1	Staff skills	See Strategy 3.3 – Corporate Services (page 16).

Strategy 3.3 Corporate Services

Corporate Services include financial, business analysis, information technology and human resource services across the whole agency. The strategy for this support area is to:

Provide the appropriate support services to meet FPC's business needs.

Objectives

- To provide quality financial and management accounting services, business operations services, information technology and human resource systems appropriate and responsive to the FPC's business.
- To ensure an efficient and effective procurement and contract management service.
- To implement a structured and effective Cultural Development Program.
- To prepare FPC for the introduction of the Shared Corporate Services Centre under the Government's Functional Review of corporate services.
- To implement a coordinated Human Resource management strategy.
- To attract and retain quality staff.
- To ensure systems and processes are in place to maintain a safe workplace for all employees.

Financial

- | | | |
|-----------------|---------------------------|--|
| Target 1 | Corporate earnings | <ul style="list-style-type: none"> • Earnings before interest and tax meet or exceed projected target. • Dividend meets or exceeds projected target. • Return on net assets (by asset class) meets or exceeds projected target. |
|-----------------|---------------------------|--|

Process

- | | | | |
|-----------------|-----------------------|--|--|
| Target 1 | Performance of | <ul style="list-style-type: none"> • information technology systems • human resource systems • contract management | <p>99% "uptime".</p> <p>100% compliance by the agency with Public Sector Standards.</p> <p>100% compliance with appropriate standards.</p> |
| Target 2 | OHS | <ul style="list-style-type: none"> • Implementation of a Safety Audit system for all regular FPC contractors. • Reduction of LTI to below FPC's five year LTI average. | |

Learning and Growth

- | | | |
|-----------------|------------------------------|---|
| Target 1 | Staff skills | <ul style="list-style-type: none"> • 100% implementation of the "Performance and Development Review System". • Training and development programs developed for all staff. |
| Target 2 | Employee satisfaction | <ul style="list-style-type: none"> • Employee satisfaction index improves over 2005/06 result. |

Environmental

Target 1	Recycling and waste management	To comply with the State Government's waste paper recycling program.
Target 2	Energy conservation	<ul style="list-style-type: none">• To reduce dependence on fossil fuels by at least 12% by June 2007 through energy conservation and efficiency practices to meet the State Government's Energy Smart Policy.• To reduce expenditure on energy by investing in a cost effective plan upgrade that has a simple payback return on investment of five years or less.

Strategy 3.4 Research and Development

A strong focus on research and development underpins the operation of the FPC’s plantation and native forest businesses. Research is provided “in-house”, and through partnerships with research institutions including the Science Division of the Department of Conservation and Land Management, CSIRO and universities, and in broad collaborations with industry through Cooperative Research Centres.

The primary focus for this support area is:

To provide access to a research and development program that is designed to provide technologies that maximise economic, environmental and social outcomes of FPC business.

Objectives

- Native forest management is demonstrably based on sustainable practices.
- Development of new land use systems that provide for the delivery of economic and environmental benefits in the medium rainfall zone.
- Demonstration of the benefits of tree farming activities on environmental objectives (salinity, carbon).
- Provision of strategic advice on the impact of FPC’s tree farming activities on achieving environmental objectives.
- Resource information is maintained and projected on planned current and future wood supplies.
- Representation of FPC as an organisation operating on high standard of scientific information.

Financial		
Target 1	External funding	Increase proportion of external funding to 25 % of R&D expenditure.
Process		
Target 1	Native forest management	All native forest activities uses sustainable systems.
Target 2	Mature plantations	Silvicultural systems maximise productivity.
Target 3	New plantations	Establishment of new plantations is not limited by lack of information.
Target 4	Monitoring and evaluation	An effective program to monitor the environmental benefits of tree farming is in place by 2007.
Customer		
Target 1	Internal stakeholders	Development programs supported by technical information.
Target 2	Employee satisfaction	FPC recognised as a provider of R&D.
Target 3	Research providers	Recognition of FPC as a provider of high quality R&D.
Learning and Growth		
Target 1	Staff skills	See Strategy 3.3 – Corporate Services (page 16).

Pricing Principles

Section 59 of the *Forest Products Act 2000* describes the components that must be included when setting prices for the sale of forest products.

This essentially forces prices to cover the cost of growing the forest, the cost of production and delivery, as well as a profit component. Such calculations can be made on a whole-of-forest basis, but their relative prices established to reflect a differential between log grades and therefore market conditions. Prices for most plantation logs and industrial logs from native forest are set by State Agreement Acts and negotiation, while native forest sawlogs are established by general review. Half-yearly or annual movements are then applied in line with agreed indices reflecting CPI or end product markets (silicon or timber).

The Commission has had to address the difficulty of reduced log availability from native forest and reduced business confidence in the industry. Significant related decisions of allocation methods and log grading has resulted in increased prices for native forest under new contracts from 2004.

Prices for log timber grades are comprised of a stumpage component which currently represents the cost of growing or the price at the stump, including a rate of return on investment, and a component representing the cost of harvesting and log transport.

Stumpage prices for indigenous forest products are based on the “cost of growing” following periodic reviews and are adjusted either annually or half yearly based on a CPI calculated by the Australian Bureau of Statistics. The prices for charlogs are adjusted half-yearly based on movements in international silicon metal prices. All customers pay the same price for the same grade of logs unless they have won small parcels or contracts through auction or open tender, in which case the price is set by the auction or tender.

Prices for indigenous forest products have been reviewed in accordance with Government policy and increased cost implication under the new Forest Management Plan, which has resulted in increased sawlog prices under new 10year sale contracts. Government has approved compounded price increases for jarrah first and second grade sawlogs of six percent, six percent and five percent in 2005/06, 2006/07 and 2007/08 respectively. Karri first and second grade sawlogs has also been subjected to recent compounded price increases. Both jarrah and karri first and second grade sawlogs are indexed annually to CPI (all groups Perth).

Stumpage prices for pine sawlogs were initially established through benchmarking with other States and log tenders. They are varied on a six monthly basis in accordance with the Wespine index which is linked to the market value of the timber products.

Stumpage prices for industrial wood are set out in the *Wood Processing (Wesfi) State Agreement Act 2000* and are varied on a three yearly basis.

Stumpage prices for other plantation products have been established through competitive tendering and are varied through different indexation mechanisms.

In addition to stumpage values prices include the cost of harvesting and delivery when forest products are sold at roadside or mill door. Harvesting and delivery prices reflect the actual contract costs which are varied each six months according to the contractual conditions. Harvesting rates are obtained through open tender.

Prices for seeds and seedlings are set in accordance with Treasury publication “Costing and Pricing Government Outputs” and National Competition Policy.

Accounting Policies

The Commission's financial statements are prepared in accordance with Australia Accounting Standards, as detailed in the Financial Statements included in the Commission's Annual Report.

Forestry assets are valued in accordance with AASB 1037 "Self-Generating and Regenerating Assets".

Performance Reporting

The Forest Products Commission will provide the Minister for Agriculture and Forestry with written half-yearly and annual reports summarising progress made in fulfilling the intentions of this Statement.

Half-yearly reports will be submitted to the Minister in accordance with Section 19 of the *Forest Products Act 2000*. Half-yearly reports will be the mechanism for measuring the performance against the Statement of Corporate Intent and will include comments on variations from expected performance for the indicators.

As part of this report the Commission will provide information on its balance sheet, profit and loss, cash flow and capital expenditure.

In addition to the half-yearly report the Commission will advise the Minister of any significant variations in the performance of the Commission and of any factors that may prevent the agreement being fulfilled or necessitate its re-negotiation.

Annual Report

The annual report will contain:

- a report on operations;
- a copy of financial statements for the financial year;
- the Chairman's statement;
- a copy of the Auditor General's report on the financial statements;
- a copy of an order of the Treasurer for relief from the requirements relating to accounts, consolidated accounts or Chairman's report;
- comparison of performance with this Statement of Corporate Intent;
- particulars of any direction given by the Minister and its impact on the financial position, profits and losses and prospects of the Commission; and
- a summary of reports to the Commissioner for Public Sector Standards on the observance by members of staff on any code of conduct.

Appendix A Potential Additional Business Opportunities and Revenue Streams

The Commission has applied considerable effort in its endeavours to pursue forestry business opportunities to enhance its profitability. Steady progress has been made on this front and some projects are now at an advanced stage.

As noted earlier the Commission's financial forecasts contained in this document are "base case" and do not include the effect of potential net revenues which would be accruing from new business ventures.

The table below outlines business projects which are rated as having a good chance of being successful.

Project Description	Value \$'000	Year
Sale of 10,000 tonnes of first and second grade jarrah backlog	412	2006
Sale of 2,000 tonnes per annum of native forest crown logs	78	2006
Sale of 20,000 tonnes per annum of native forest third grade timber	340	2006
Sale of seedlings to Project Alpha	180	2006
Provision of forestry services – Project Alpha	2,100	2006/10

Appendix B Community Service Obligations

Government pays an amount of \$1.070 million for the cost of servicing native forest debt which was incurred prior to the formation of the FPC. This payment is made in recognition of the effect of the State Government's *Protecting our Old Growth Forest Policy* and *Forest Management Plan 2004-2013* reduction in native forest harvesting levels and associated revenue decrease.

A review process aimed at identifying and quantifying the monetary value of revenue forgone and/or cost of activities undertaken that fall within the definition of CSOs was commenced in 2004/05. It is expected that this project will be completed in the early part of 2005/06, and reimbursement from Government will be sought for those items which meet the CSO criteria.

Appendix C

Forecast Financial Statements 2005-06

- C1 Financial Performance
- C2 Cash Flow
- C3 Financial Position
- C4 Financial Ratios

Appendix C1

Forecast Statements of Financial Performance 2005-06

	2005-06
	\$000
Gross Operating Income	101,273
CSO Income	1,070
Total Income	102,343
Total Expenditure	95,317
Operating Profit before Interest and Tax	7,026
Interest payable	6,118
Operating Profit before Tax	908
Taxation	0
Net Profit after Tax	908
Retained Profits brought forward	29,675
Statutory Dividend	0
Retained Profits	30,583

Appendix C2

Forecast Statement of Cash Flow as at 30 June 2005

	2005/06 \$000
Receipts	102,553
Payments	99,375
Operating Activities	3,178
Receipts	1,291
Payments	7,386
Investing Activities	(6,095)
Proceeds	7,760
Repayments	4,788
Financing Activities	2,972
Opening Cash Balance	171
Balances and Adjustments	171
Statement of Cash Flow	226

Appendix C3

Forecast Statements of Financial Position 30 June 2005

	2005/06 \$000
Current Assets	
Cash	226
Inventories	6,609
Receivables	14,143
Other	2,005
Total Current Assets	22,983
Non Current Assets	
Land	4,674
Buildings	3,952
Infrastructure	14,776
Plant, equipment and other	6,952
IFRS – biological assets	338,736
Other	8,122
Total Non Current Assets	377,212
TOTAL ASSETS	400,195
Current Liabilities	
Payables	4,492
Borrowings	3,553
Employment entitlements	3,035
Other	8,305
Total Current Liabilities	19,385
Non Current Liabilities	
Borrowings	93,457
Employee entitlements	1,045
Other	21,419
Total Non Current Liabilities	115,921
TOTAL LIABILITIES	135,306
Equity	
Contributions	229,140
Contributions from Consolidated Fund	5,141
Accumulated surplus/deficit c/f	30,583
Accumulated Surplus	264,864
Asset revaluation reserve	25
TOTAL EQUITY	264,889

Appendix C4

Financial Ratios as at 30 June 2005

Ratio	2005/06
$\frac{\text{Current Assets}}{\text{Current Liabilities}}$	1.19
$\frac{\text{Total Borrowings}}{\text{Total Equity}}$	36.6%
$\frac{\text{Net Profit after Tax}}{\text{Total Assets}}$	0.23%
$\frac{\text{Net Profit before Interest and Tax}}{\text{Total Assets}}$	1.76%
$\frac{\text{Profit before Tax}}{\text{Income}}$	0.9%
$\frac{\text{Total Dividends}}{\text{Total Equity}}$	0.00%
$\frac{\text{Expenditure}}{\text{Income}}$	93%

Appendix C5

Segment profitability by “main business segment”

Year	South- West Forests	Arid Forest	Plant Propagation	New Plantations	Mature Plantations	Business Development	Corporate & Business Support	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
2005/06	6,937	4,319	(764)	(4,117)	8,098	(3,731)	(9,834)	908

Note: Above profit/(loss) forecast is before tax, dividend and SGARA valuations.

Glossary

A number of terms are used in this document that have different interpretations in different contexts. The way in which we have used these terms in this document reflects the following meanings:

Vision	The long-term desired state of the business.
Mission	FPC's role in achieving this vision.
Goal	High level direction for each major segment of business.
Strategy	Planned business activity to achieve each goal.
Objective	Specific aim or intended result of each strategy.
Measure	Quantifiable indicator of progress towards the objective.
Target	The time-bound and quantified performance aim for each measure.