

VICTORIA

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Auditor General  
Victoria

# Managing logging in State forests

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President  
Legislative Council  
Parliament House  
MELBOURNE

The Hon. Judy Maddigan MP  
Speaker  
Legislative Assembly  
Parliament House  
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Under the provisions of section 16AB of the *Audit Act* 1994, I transmit my performance audit report on *Managing logging in State forests*.

Yours faithfully

J.W. CAMERON  
*Auditor-General*

28 October 2003

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# Foreword

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Victoria's State forests are valuable assets. Most have been put aside as parks and reserves, or as protected areas. A small portion, some 700 000 hectares, is available for commercial logging.

The Department of Sustainability and Environment is responsible for ensuring that commercial logging operations are managed on a sustainable basis. The Government identified that, for logging in State forests to be sustainable, the volume of timber taken from the forest must decrease significantly - by one-third on a Statewide basis. The department has bought back sufficient licences to realise this objective, and has taken an important step forward in sustainable forest management.

A one-third reduction in logging levels will obviously impact on employment in the forest industry. Sawmill workers and harvest and haulage firms, both owners and their employees, are likely to be hit hardest. These employment impacts could have broader economic and social consequences for the regional communities in which forest industry workers live.

The responsible government departments have assisted employees displaced from sawmilling businesses and the harvest and haulage firms to adjust to the new logging levels. However, there is still considerable uncertainty for those who own and run harvest and haulage firms in the forest industry. The department has a responsibility to alleviate the existing uncertainty and any hardship it could cause, as a matter of priority.



J.W. CAMERON

*Auditor-General*

28 October 2003

# Part 1

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## Executive summary

## INTRODUCTION

**1.1** The Government has committed to managing the commercial logging that occurs in State forests on a sustainable basis. The Government's policy, *Our Forests, Our Future: Balancing Communities, Jobs and the Environment*, aims to balance environmental, economic and social objectives in its management of these forests, so that all Victorians, including those in future generations, will benefit from a better quality of life. In *Our Forests, Our Future*, the Government also signalled that it will increase community participation in its forest management decisions. (*para. 2.1*)

**1.2** A fundamental step in managing the sustainability of State forests is to ensure that the number of logs harvested from the forest does not exceed the rate at which they grow. Following a review of timber resources in 2001, the Government identified that if logging in State forests is to be sustainable, current harvesting rates must be reduced by about one-third on a Statewide basis, and by up to 80 per cent in some individual forest areas. The Government committed to buying back sufficient licensed sawlog volumes to achieve these reductions in logging, through the Voluntary Licence Reduction Program. (*paras 2.6 and 2.9*)

**1.3** One of the most obvious consequences of reducing logging levels is reduced employment in the forest industry. A one-third reduction in licensed sawlog volume will have significant employment impacts in both the wood processing and the harvesting and haulage sectors of the industry. These employment impacts are also likely to have flow-on effects to the regional communities in which most forest industry workers live. The Government committed to cushioning the consequences of the licence buy-back on individual workers, and their wider communities, through Worker and Contractor Assistance Programs. (*paras 2.13 and 2.14*)

**1.4** This audit examined the Voluntary Licence Reduction Program, the Worker Assistance Program and the Contractor Assistance Program.

## REDUCING LOGGING TO SUSTAINABLE LEVELS

### Voluntary Licence Reduction Program

**1.5** The Department of Sustainability and Environment (DSE) has established the foundations for the sustainable management of State forests, by reducing licensed sawlog volumes in these forests to the target levels. (*para. 3.17*)

**1.6** DSE has achieved this reduction by:

- buying back the Government's Statewide target licensed sawlog volume;
- buying back the target licensed sawlog volumes for each Forest Management Area (FMA), except the Central Gippsland and Midlands FMAs; and
- making operational arrangements to reduce *actual harvesting* to the required levels in the Midlands FMA by 30 June 2004 and in the Central Gippsland FMA by 30 June 2008. (*para. 3.18*)

**1.7** DSE has implemented the Voluntary Licence Reduction Program (VLRP) efficiently, by:

- reducing licensed sawlog volumes to the target levels for less than its original budget estimates; and
- achieving the objectives of the VLRP faster than expected. (*para. 3.19*)

**1.8** DSE and the Rural Finance Corporation have administered the Voluntary Licence Reduction Program according to the Program's guidelines, with some variations that the Secretary or officers of DSE directed the Corporation to undertake. (*para. 3.20*)

**1.9** DSE estimates that the Voluntary Licence Reduction Program will cost a total of \$31.2 million. (*para. 3.9*)

### **Worker Assistance Program**

**1.10** Through the Worker Assistance Program, the Department for Victorian Communities (DVC) has begun assisting forest industry workers undertake training, relocate, secure new jobs or retire if they wish to do so. (*para. 3.59*)

**1.11** To be eligible for the Worker Assistance Program, people must, as a minimum, have been either:

- employed by sawmills or harvest and/or haulage contractors, working in the Victorian native forest timber industry; or
- directors or principals of sawmills. (*para. 3.23*)

**1.12** People in both groups must also meet some additional eligibility criteria, regarding their past and current working arrangements. (*para. 3.24*)

**1.13** At 30 June 2003, of the 348 displaced workers whom DVC assessed as eligible for the Worker Assistance Program, 220 had secured another job, 73 were in training, 13 were unemployed and 21 had retired voluntarily – giving an unemployment rate of 5.6 per cent. (*para. 3.32*)

**1.14** At 30 September 2003, while an additional 74 workers had secured another job, the number of workers unemployed had also increased. (*para. 3.33*)

**1.15** Under the Worker Assistance Program, in 2002-03:

- DVC had provided 350 workers with industry restructure payments costing approximately \$11 million; and
- the Forest and Forest Products Employment Skills Company (a service provider) had provided workers with training, job search assistance and relocation assistance costing approximately \$1 million. (*para. 3.29*)



**1.16** However, since the Worker Assistance Program is in the early days of its 4-year life, it is too early to conclude whether DVC will achieve the Program's objective over its entire life. (*para. 3.59*)

**1.17** An examination of 6 Worker Assistance Program files showed inadequate processes for checking assessments in 3 files. Since these assessments were conducted, DVC has revised and improved its checking processes. (*para. 3.36*)

**1.18** DSE originally estimated that the Worker Assistance Program would cost \$15 million. However, DSE increased its estimate to \$27.6 million following the Government's endorsement of the final terms of the worker assistance packages, and its decision to make the packages available to sawmill principals. (*para. 3.34*)

### **Contractor Assistance Program**

**1.19** DSE's delay in implementing the Contractor Assistance Program has created uncertainty for harvest and haulage contractors. (*para. 3.60*)

**1.20** When applications closed on 29 November 2002, the Rural Finance Corporation had received 175 applications for the Contractor Assistance Program. At 30 September 2003, 37 applicants had received, or been assessed as eligible to receive, assistance through the Program. One hundred and nineteen applications were on hold. (*para. 3.47*)

**1.21** At the time of the audit, these 119 applications had been on hold for 8 months. (*para. 3.53*)

**1.22** DSE and the Industry Transition Taskforce have indicated to the Rural Finance Corporation that the 119 applications on hold should not proceed until further notice. Final determination of the treatment of the Contractor Assistance Program applications was dependent upon settling the final licence buy-back volume. (*para. 3.52*)

**1.23** Since the February 2003 bushfires occurred, DSE has been examining the number of harvest and haulage contractors that the industry will need to salvage the burnt timber over the next 2 years. DSE estimates that most of the remaining contractors (above and beyond the 37 who have been assessed as eligible) will be needed for this salvage work, subject to their equipment capability and their ability to relocate. (*para. 3.54*)

**1.24** DSE estimates that the cost of assisting the 37 contractors who have been assessed as eligible for the Contractor Assistance Program will be \$13 million. (*para. 3.56*)

## RECOMMENDATIONS

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**1.25** We recommend that DSE and DVC continue to monitor the results of the Worker Assistance Program to ensure the early Program outcomes are maintained. (*para. 3.61*)

**1.26** We recommend that DVC ensures that its revised processes for checking assessments in the Worker Assistance Program are maintained. (*para. 3.62*)

**1.27** We recommend that DSE makes it a priority to:

- confirm whether it will be using the Contractor Assistance Program to restructure the harvest and haulage contracting sector of the industry;
  - confirm the criteria that will be used to determine eligibility for assistance through the Program;
  - ensure that the Program's objectives and eligibility criteria are clear and readily discernible to the community;
  - complete the Program using these objectives and criteria;
  - ensure that the Program is managed and administered so that all decisions, particularly decisions about eligibility for assistance, are clearly explained to all applicants and are fully documented. (*para. 3.63*)
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## Part 2

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# Policy context

## SUSTAINABLE FOREST MANAGEMENT

### Balancing environmental, social and economic objectives

**2.1** The Government describes sustainable forest management as forest management that balances environmental, social and economic objectives and actions so that all Victorians, including those in future generations, will benefit from a better quality of life. In other words, economic growth and social development must also be environmentally sustainable. When pursuing these goals, government agencies are expected to involve all interest groups in forest management decisions<sup>1</sup>. These aspects of sustainable forest management are shown in Figure 2A.

**FIGURE 2A**  
**ASPECTS OF SUSTAINABLE FOREST MANAGEMENT**



Source: Victorian Auditor-General's Office, based on information provided by the Department of Sustainability and Environment.

**2.2** The Government's sustainable forest management policy is set out in *Our Forests, Our Future: Balancing Communities, Jobs and the Environment*, released in February 2002<sup>2</sup>. This policy followed a review of timber resources in 2001 and was preceded by the 1986 Timber Industry Strategy<sup>3</sup>.

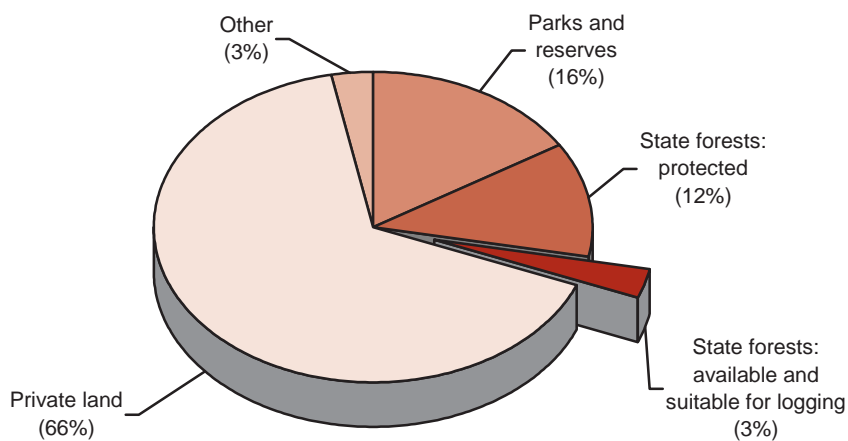
<sup>1</sup> Department of Natural Resources and Environment (2002), *Our Forests, Our Future: Balancing Communities, Jobs and the Environment*. <http://www.dse.vic.gov.au> Accessed 21 February 2003.

<sup>2</sup> *ibid.*

<sup>3</sup> Government of Victoria, *Victoria Timber Industry Strategy*. Government Printer, Melbourne, 1986.

**2.3** The *Our Forests, Our Future* policy commitments apply to the management of State forests that are available for commercial logging. Victoria’s State forests cover 3.4 million hectares, around one-sixth of Victoria. About 700 000 hectares are available and suitable for producing sawlogs (see Figure 2B)<sup>4</sup>. This area will contract as the Government’s commitments to reduce logging in areas such as the Otway forests come into effect over the next 5 years.

**FIGURE 2B  
LAND TENURE, VICTORIA, JUNE 2002**



Source: Victorian Auditor-General’s Office, based on data provided by the Department of Sustainability and Environment.

**2.4** For planning and operational purposes, Victoria is divided into 14 Forest Management Areas (FMAs), as shown in Figure 2C.

<sup>4</sup> Department of Natural Resources and Environment (2002), *Forestry, Facts and Figures - Statewide Area Statistics, Land Tenure*. <http://www.dse.vic.gov.au> Accessed 31 July 2003.

FIGURE 2C  
FOREST MANAGEMENT AREAS



Source: Victorian Auditor-General's Office, based on data provided by the Department of Sustainability and Environment.

### **Whole-of-government policy context**

**2.5** The sustainable forest management policy described in *Our Forests, Our Future* mirrors and supports the Government's broader commitment to sustainable development, described in its whole-of-government policy statement, *Growing Victoria Together: Innovative State. Caring Communities*<sup>5</sup>.

### **Reducing logging to sustainable levels**

**2.6** A fundamental step in managing State forests sustainably is to ensure that the number of logs harvested from the forests does not exceed the rate at which they grow. The Government has identified that if logging in State forests is to be sustainable, current harvesting rates must be reduced by about one-third (31 per cent) on a Statewide basis, and in some individual forest areas by up to 80 per cent<sup>6</sup>.

<sup>5</sup> Department of Premier and Cabinet (2001), *Growing Victoria Together: Innovative State. Caring Communities*. <http://www.growingvictoria.vic.gov.au> Accessed 28 March 2003.

<sup>6</sup> Department of Natural Resources and Environment (2002), *Our Forests, Our Future: Balancing Communities, Jobs and the Environment*. <http://www.dse.vic.gov.au> Accessed 21 February 2003.

**2.7** To identify the sustainable level of logging and hence the magnitude of the reductions required, the Department of Sustainability and Environment (DSE) revised the amount of timber resources available in State forests. Before announcing the reductions in logging, the Government commissioned an independent assessment of DSE’s data and methods for revising the amount of timber resources available in State forests<sup>7</sup>.

**2.8** DSE regulates the amount of logging in State forests by issuing licences to sawmillers. These licences identify the volume, species and grade of logs (or “licensed sawlog volumes”) that can be harvested from each of Victoria’s FMAs. Licences give licensees a legal right to harvest logs from the forest for up to 15 years. In return, licensees pay the Government a licence fee and royalties for logs harvested. Sawmillers commonly out-source the actual logging work to harvest and haulage contractors.

### **Reducing licensed sawlog volumes**

**2.9** In order to reduce logging from current levels to the lower, sustainable levels, the Government needed to “buy-back” some licensed sawlog volumes from licensees. It established the Voluntary Licence Reduction Program for this purpose.

**2.10** DSE’s calculations of the targets for the licence buy-back were underpinned by its past and continuing work to:

- improve the comprehensiveness and accuracy of the Statewide Forest Resource Inventory (the database that records the volume, species, age, growth rate and expected yield of the trees in Victoria’s State forests); and
- monitor the logs taken from the forest annually in order to keep the timber Inventory up-to-date.

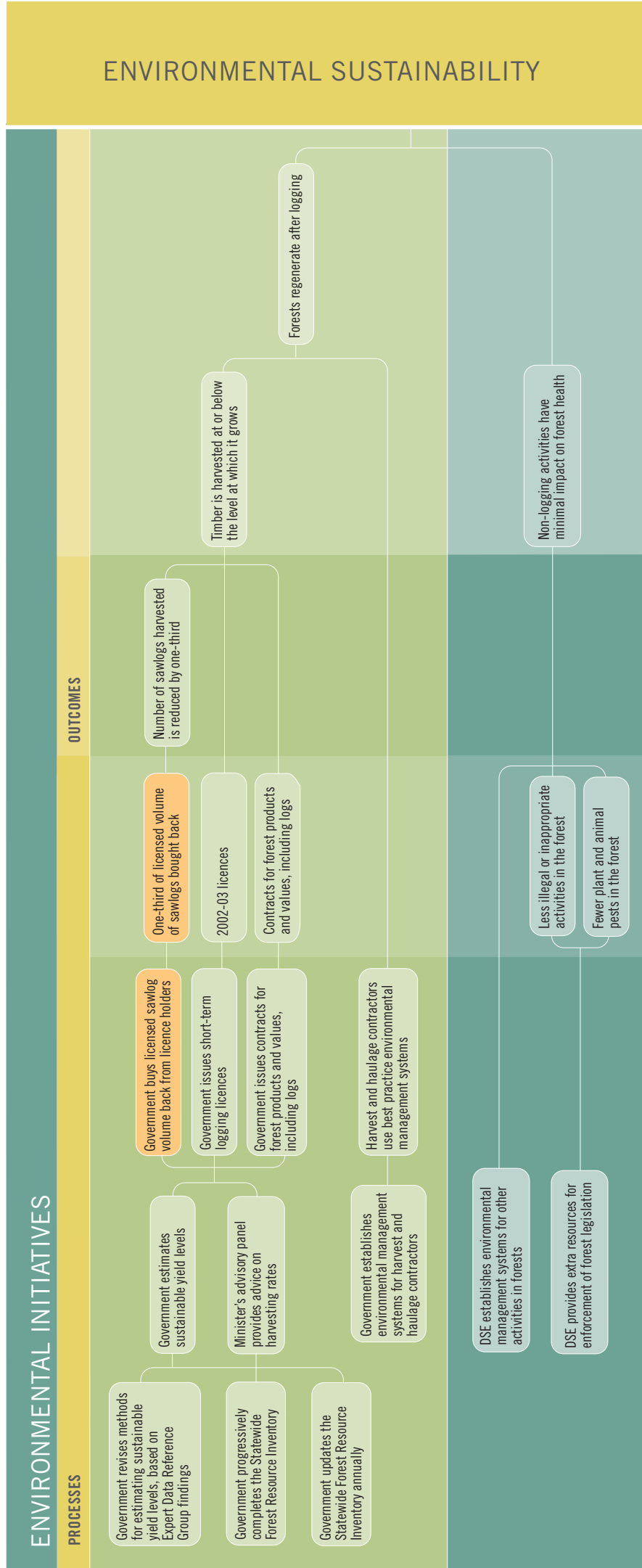
**2.11** DSE is adjusting the Inventory to take into account the effects of the bushfires of early 2003. The bushfires damaged State forests in the North-East, Tambo and East Gippsland FMAs, reducing the resources available in these areas.

**2.12** These initiatives are illustrated in Figure 2D, together with the other environmental initiatives described in *Our Forests, Our Future* that are not directly part of the licence buy-back program. The buy-back initiatives that are the subject of this audit are shaded orange.

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<sup>7</sup> JK Vanclay and BJ Turner (2001), *Evaluation of the Data and Methods for Estimating the Sustainable Yield of Sawlogs in Victoria, Report of the Expert Data Reference Group*. Available from the Department of Sustainability and Environment.

FIGURE 2D  
ACHIEVING ENVIRONMENTAL SUSTAINABILITY



Source: Victorian Auditor-General's Office, based on *Our Forests, Our Future* policy statement.



## Managing the social consequences of reduced logging

**2.13** One of the most obvious consequences of reducing licensed sawlog volumes is reduced employment in the forest industry. A one-third reduction in licensed sawlog volumes will have significant employment impacts in both the wood processing and the harvesting and haulage sectors of the industry. The wood processing sector mainly comprises businesses involved in sawmilling, woodchipping, and timber resawing and dressing. The harvesting and haulage sector comprises independent contractors who cut the trees and transport them to sawmills. The employment impacts of reduced logging are also likely to have flow-on effects to the regional communities in which most forest industry workers live.

**2.14** The Government has committed to cushioning the impacts of the licence buy-back on individual workers, and their wider communities, through:

- the Worker Assistance Program; and
- the Contractor Assistance Program.

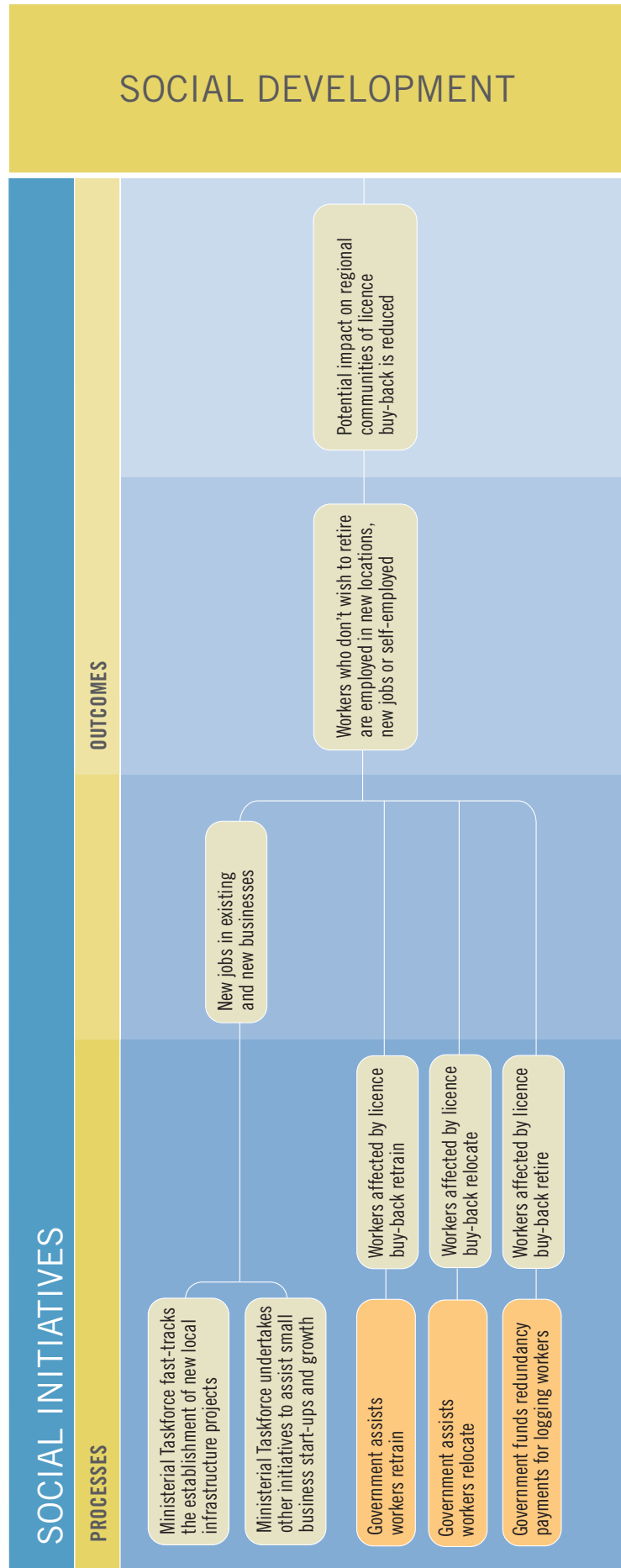
**2.15** The Worker Assistance Program provides financial assistance to employees of sawmilling businesses, employees of harvest and haulage contracting firms, and sawmill principals who have been affected by the licence buy-back. It also assists these people to find new jobs, relocate, retrain or voluntarily retire.

**2.16** The Contractor Assistance Program assists harvest and haulage contractors, and other business owners, whose businesses are affected by the licence buy-back. The Program also provides contractors with financial assistance, and assistance with finding new jobs, relocating, retraining or voluntarily retiring.

**2.17** A Ministerial Taskforce, chaired by the Treasurer, is also bringing forward a number of infrastructure projects in regional areas to create new employment opportunities for workers displaced by the licence buy-back.

**2.18** The social initiatives of *Our Forests, Our Future* are illustrated in Figure 2E. The initiatives addressed by this audit are shaded orange.

**FIGURE 2E  
MANAGING THE SOCIAL CONSEQUENCES OF REDUCED LOGGING**



Source: Victorian Auditor-General's Office, based on *Our Forests, Our Future* policy statement.

## Community involvement

**2.19** The Government has committed to involving forest interest groups in its decisions about the programs that will put *Our Forests, Our Future* into action. The convening of the Industry Transition Taskforce, and its sub-committee, the Industry Consultative Forum, is one step in this process. (See paragraph 2.28.)

**2.20** The Government has stipulated that DSE will increase community consultation and participation in its forest management decisions. Community involvement in audits of the *Code of Forest Practice for Timber Production* is an existing example of community participation.

**2.21** The Government also requires DSE to provide more and better information about the outcomes it is achieving, for example, by publishing a *State of the Forests* report on a 5-yearly basis.

## Improving economic viability

**2.22** In conjunction with the licence buy-back, and the other environmental and social initiatives, *Our Forests, Our Future* announced other initiatives for improving the economic viability of the forest industry. These are discussed below.

### Introducing new licence allocation arrangements

**2.23** The Government aims to obtain fairer returns from logging by introducing a new way of allocating the rights to draw on forest resources. In particular, the Government will establish a new commercial body, VicForests, to allocate the rights to harvest timber, in areas open to commercial logging, via a market-based system in which potential licence holders will compete on price.

### Stimulating industry restructuring

**2.24** The Government intends to encourage further restructuring in the forest industry, including by establishing a Sustainable Timber Industry Council to advise it about ways to:

- assist sawmillers develop more efficient production methods and higher value products, so that their industry sector becomes more profitable; and
- stimulate private investment in tree plantations that could potentially replace some State forests as sources of timber.

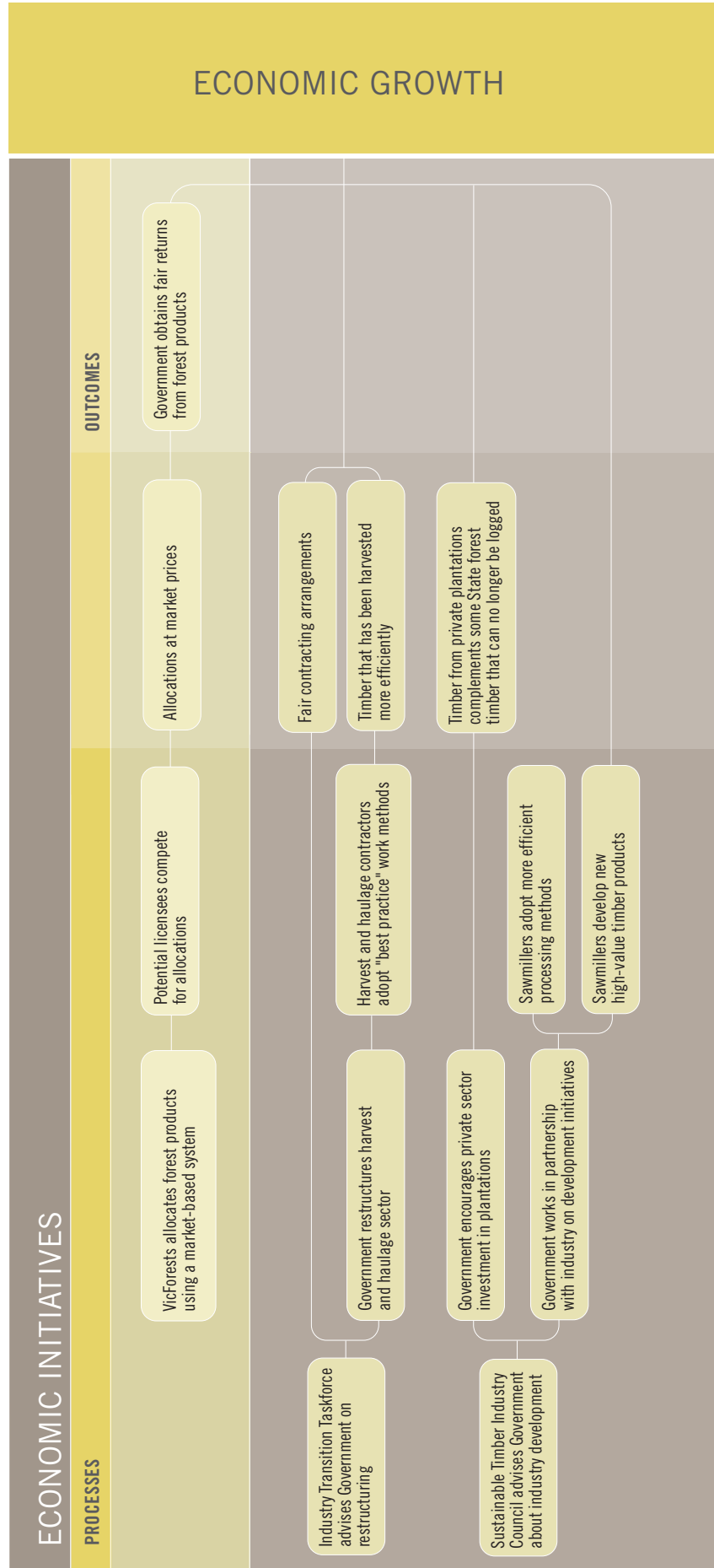
**2.25** The Industry Transition Taskforce has also provided advice about improving the efficiency of the harvesting and haulage sector of the industry. This advice included commenting on a government report on the issue<sup>8</sup>.

**2.26** Figure 2F illustrates the economic initiatives in *Our Forests, Our Future*.

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<sup>8</sup> S Bloch, *Examination of Log Harvesting and Haulage Arrangements in the Victorian Hardwood Sector*. Available from the Department of Sustainability and Environment.

**FIGURE 2F  
IMPROVING ECONOMIC VIABILITY**



Source: Victorian Auditor-General's Office, based on *Our Forests, Our Future* policy statement.

## RESPONSIBLE AGENCIES

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### Departments and public sector agencies

**2.27** DSE has overall responsibility for the implementation of *Our Forests, Our Future*. The Rural Finance Corporation administered the licence buy-back and the business elements of the Contractor Assistance Program. The Department for Victorian Communities (DVC) administered the Worker Assistance Program and the non-business elements of the Contractor Assistance Program for DSE. A service provider, the Forest and Forest Products Employment Skills Company, has been contracted by DVC to provide assistance with job search, relocation, training and related services.

### Industry Transition Taskforce

**2.28** The Government convened the Industry Transition Taskforce to:

- “... be the principal state level forest industry consultative body responsible for providing expert/key advice to the Minister on timber industry implementation strategies ...
- ... monitor and advise on the implications of implementing the following processes:
  - the Voluntary Licence Reduction Program, Contractor Exits and Worker Assistance Program;
  - the new licensing process;
  - the recommendations of the independent review into the harvest and haulage sector;
  - other related industry issues consistent with *Our Forests, Our Future*; and
  - other industry issues as determined by the Minister”<sup>9</sup>.

**2.29** The Industry Transition Taskforce (ITT) is made up of experts in the forest industry and representatives from the Department of Industry, Innovation and Regional Development, the Department of Treasury and Finance and DSE.

**2.30** In addition to monitoring and advising the Government about the Voluntary Licence Reduction Program, the Worker Assistance Program and the Contractor Assistance Program, the Industry Transition Taskforce classified the applications for the Contractor Assistance Program into 3 categories for the Rural Finance Corporation:

- A - process as a priority;
- B - process as a priority with formal reference back to the ITT prior to letter of offer being made to the applicant by RFC; and
- C - on hold, pending further advice from ITT to proceed.

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<sup>9</sup> *Our Forests, Our Future Implementation; Industry Transition Taskforce; Terms of Reference and Procedures of Operation*. Unpublished, available from the Department of Sustainability and Environment.

**2.31** The Industry Transition Taskforce convened an Industry Consultative Forum, whose role was to “ensure industry input into the activities of the Industry Transition Taskforce”<sup>10</sup>. The Industry Consultative Forum includes representatives of the industrial stakeholders in the native hardwood timber industry, namely the:

- Victorian Association of Forest Industries;
- Victorian Forest Harvesting and Cartage Council; and
- Construction, Forestry, Mining and Energy Union.

### **Ministerial Taskforce**

**2.32** As mentioned in paragraph 2.17 above, a Ministerial Taskforce, chaired by the Treasurer, is bringing forward a number of infrastructure projects in regional areas to create new employment opportunities for workers displaced by the licence buy-back.

## **COST OF SUSTAINABLE FOREST MANAGEMENT INITIATIVES**

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**2.33** When the Government released *Our Forests, Our Future* in February 2002, it announced the provision of “... up to \$80 million that will help regional communities, the timber industry and workers adjust to the lower timber volumes”. This budget included funds for:

- Industry Transition assistance (\$47 million);
- Worker Assistance Program (\$15 million); and
- Other Forest Projects (\$18 million).

**2.34** At the time of the announcement, there was no separate budget allocation for the Contractor Assistance Program or for program establishment, design and administration.

**2.35** In March 2003, the Government approved an additional \$8.9 million for *Our Forests, Our Future* initiatives, including a specific budget allocation for the Contractor Assistance Program, and agreed to revisions to various budget categories. The revised budget is set out in Figure 2G, together with projected expenditure for the life of the program and actual expenditure to 30 June 2003.

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<sup>10</sup> *Our Forests, Our Future Implementation; Industry Transition Taskforce; Terms of Reference and Procedures of Operation*. Unpublished, available from the Department of Sustainability and Environment.

**FIGURE 2G**  
**BUDGET, PROJECTED EXPENDITURE 2002-03 TO 2006-07 AND ACTUAL EXPENDITURE, 2002-03**

	<i>Approved Budget, March 2003</i>	<i>Projected Expenditure, 2002-03 to 2006-07</i>		<i>Actual, 2002-03</i>
	<i>(\$m)</i>	<i>(\$m)</i>	<i>(%)</i>	<i>(\$m)</i>
Voluntary Licence Reduction Program	32.6	31.2	35.1	22.9
Worker Assistance Program	29.4	27.6	31.1	12.6
Contractor Assistance Program	12.6	13.0	14.6	5.6
Other Forest Projects	12.0	12.0	13.5	4.4
Program design and administration	(a) 2.3	5.1	5.7	3.1
<b>Total</b>	<b>88.9</b>	<b>88.9</b>	<b>100.0</b>	<b>48.6</b>

(a) Originally did not include administrative costs of Rural Finance Corporation and Department for Victorian Communities.

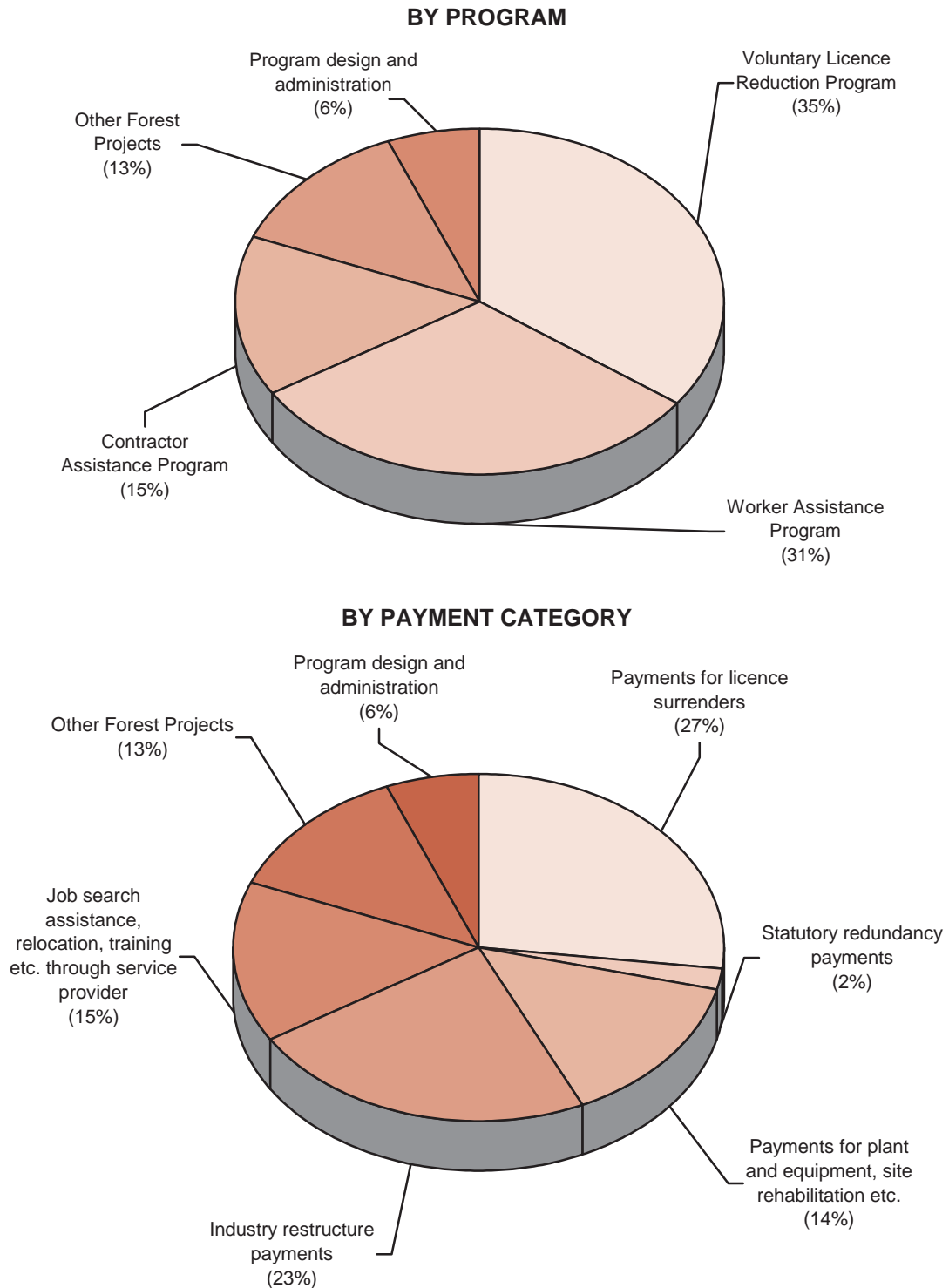
Source: Victorian Auditor-General's Office, based on data provided by the Department of Sustainability and Environment.

**2.36** A breakdown of this projected expenditure, by program and also by output, is set out in Figure 2H. The projected expenditure on program design and administration is within the expected range<sup>11</sup>. The amount set aside for Other Forest Projects<sup>12</sup> is beyond the scope of this audit, which is limited to an examination of the current status of the Voluntary Licence Reduction Program, the Worker Assistance Program and the Contractor Assistance Program.

<sup>11</sup> This percentage falls within the range that the Australian National Audit Office recognises as reasonable. Australian National Audit Office, *Administration of Grants, Better Practice Guide, May 2002*. AGPS, Canberra, 2002, p. 14.

<sup>12</sup> Other Forest Projects includes developing a new licensing and pricing system, establishing VicForests, maintaining tourism infrastructure and establishing an expert advisory panel to review annual timber harvesting rates.

**FIGURE 2H**  
**PROJECTED EXPENDITURE FOR “OUR FORESTS, OUR FUTURE” INITIATIVES**



Source: Victorian Auditor-General's Office, based on information supplied by the Department of Sustainability and Environment.

**2.37** A more detailed budget and updated forecast of projected expenditure can be found in Appendix A of this report.



## Part 3

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# Audit findings

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## REDUCING LOGGING TO SUSTAINABLE LEVELS

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### How much licensed sawlog volume did DSE need to buy back?

**3.1** In February 2002, the Government committed to reducing logging in State forests by about one-third (31 per cent) on a Statewide basis, and in some areas by up to 80 per cent, over the next 4 years<sup>1</sup>. Consequently, the Department of Sustainability and Environment (DSE) needed to buy back corresponding amounts of licensed sawlog volumes from sawmiller licensees. DSE bought these volumes through the Voluntary Licence Reduction Program, contracting the administration of the Program to the Rural Finance Corporation.

**3.2** DSE aimed to achieve the Statewide target by reducing licensed sawlog volumes in various Forest Management Areas (FMAs) by a total of 247 530m<sup>3</sup>, over 4 years to 2006-07, as shown in Figure 3A.

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<sup>1</sup> Department of Natural Resources and Environment (2002), *Our Forests, Our Future, Balancing Communities, Jobs and the Environment*. <http://www.dse.vic.gov.au> Accessed 21 February 2003.

**FIGURE 3A**  
**TARGET REDUCTIONS IN LICENSED SAWLOG VOLUMES, BY FOREST MANAGEMENT**  
**AREA, LONG-TERM, D+ AND DURABLE LICENCES ONLY (g)**

Forest Management Area	Licensed sawlog volume, at March 2002	Target reduction		Available sawlog volume, at February 2003 (e)
	(m <sup>3</sup> p.a.)	(m <sup>3</sup> p.a.)	(%)	(m <sup>3</sup> p.a.)
Central Gippsland	(a) 180 000	(d) 90 000	50	90 000
Dandenong	(a) 40 000	(d) 9 000	23	31 000
East Gippsland	(a) 250 000	(d) 107 000	43	143 000
Mid Murray	(b) 5 430	(b) 230	4	5 200
Midlands	(a) 41 100	(b) 32 500	79	8 600
North East	(a) 44 300	(d) 7 000	16	37 300
Portland	(b) 9 400	(d) 1 800	19	7 600
Benalla/Mansfield	(a) 15 200	(a) -	-	15 200
Bendigo	(b) -	(b) -	-	-
Central	(a) 129 000	(a) -	-	129 000
Horsham	(a) 900	(a) -	-	900
Mildura	(b) 600	(a) -	-	600
Otway	(a) 27 100	(a) -	-	27 100
Tambo	(a) 71 900	(a) -	-	71 900
<b>Total</b>	<b>(c) 814 930</b>	<b>(c) 247 530</b>	<b>(f) 30.4</b>	<b>567 400</b>

(a) Department of Natural Resources and Environment (2002), *Estimates of Sawlog Resources (ESR)*, March 2002. The State of Victoria.

(b) Department of Sustainability and Environment (2003), *Licence Levels and Available volumes by FMA, Nett m<sup>3</sup> Per Year*. Unpublished.

(c) Derived from figures in column.

(d) Rural Finance Corporation (2002), *Hardwood Sawlog Licence Reduction Program – Application Guidelines*. <http://www.ruralfinance.com.au/govt> Accessed 16 June 2003.

(e) Derived from figures in row.

(f) Difference between this figure and 31 per cent stated in *Our Forests, Our Future* is due to rounding of figures in preceding columns.

(g) Other types of logging licences were excluded from the Voluntary Licence Reduction Program.

Note: Some figures in table are rounded to nearest hundred, thousand or ten thousand cubic metres.

Source: Victorian Auditor-General's Office, from information provided by sources set out above.

### **How much licensed sawlog volume did DSE buy back?**

**3.3** DSE achieved the Government's target for reducing the Statewide total for licensed sawlog volume. By 8 July 2003, DSE had bought back a total of 268 360m<sup>3</sup> of licensed sawlog volume, exceeding its Statewide target of 247 530m<sup>3</sup> by approximately 8 per cent.

**3.4** DSE also achieved its targets for reducing licensed sawlog volumes in most FMAs. By 8 July 2003, DSE had bought back the target licensed sawlog volumes for each FMA, except Central Gippsland and the Midlands. (See Figure 3B).

**FIGURE 3B**  
**LICENSED SAWLOG VOLUME, BY FOREST MANAGEMENT AREA, 8 JULY 2003, LONG-TERM, D+ AND DURABLE LICENCES ONLY**

<i>Forest Management Area</i>	<i>Target reduction</i>	<i>Volume bought back, or under offer</i>	<i>Discrepancy</i>
	<i>(m<sup>3</sup> p.a.) (a)</i>	<i>(m<sup>3</sup> p.a.) (b)</i>	<i>(m<sup>3</sup> p.a.)</i>
Central Gippsland	90 000	46 462	-43 538
Dandenong	9 000	23 000	+14 000
East Gippsland	107 000	128 138	+21 138
Mid Murray	230	-	-230
Midlands	32 500	6 925	-25 575
North East	7 000	26 811	+19 811
Portland (c)	1 800	9 350	+7 550
Benalla/Mansfield	-	3 091	+3 091
Bendigo	-	-	-
Central	-	4 680	+4 680
Horsham	-	-	-
Mildura	-	603	+603
Otway (c)	-	7 500	+7 500
Tambo	-	11 800	+11 800
<b>Total</b>	<b>247 530</b>	<b>268 360</b>	<b>+20 830</b>

(a) Source: Victorian Auditor-General's Office, derived from same sources as for Figure 3A.

(b) Source: Rural Finance Corporation. This includes the buy-back of one licence in each of the Otway and Portland FMAs, which were being settled at the time of the audit.

(c) These figures include 15 050m<sup>3</sup> of licensed sawlog volume that DSE bought back in the Otway and Portland FMAs. For more details, see paragraph 3.6.

### **Central Gippsland and Midlands FMAs**

**3.5** The reduction in licensed sawlog volumes in the Central Gippsland and Midlands FMAs falls short of the targets by a total of 69 113m<sup>3</sup>. However, DSE advises that operational arrangements are in hand that will reduce actual harvesting to the required levels in the Midlands FMA by 30 June 2004 and in the Central Gippsland FMA by 30 June 2008.

### **Otway and Portland FMAs**

**3.6** DSE is buying back an additional 13 250m<sup>3</sup> of licensed sawlog volumes in the Otway and Portland FMAs beyond the target levels. DSE achieved its Statewide target reduction of 247 530m<sup>3</sup> of licensed sawlog volume without this additional volume from the Otway and Portland FMAs.

**3.7** Funding for all of the 9 350m<sup>3</sup> of licensed sawlog volumes bought back from licensees in the Portland FMA has been provided from the Voluntary Licence Reduction Program. Funding for the additional licensed sawlog volume and associated worker assistance for the Otway FMA has been provided from separate Otway funding, estimated at \$4.7 million. The Government announced its intention to purchase the Otway licensed sawlog volumes in the election statement, *Forests and National Parks, Labor's Plan to Ensure Victoria's Forests are Here to Stay*<sup>2</sup>.

## **DSE'S MANAGEMENT OF THE VOLUNTARY LICENCE REDUCTION PROGRAM**

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### **Did DSE secure the reduction in licensed sawlog volume within budget?**

**3.8** The Rural Finance Corporation's records of actual payments and current commitments show that DSE will reduce licensed sawlog volumes to the target levels for less than its original estimates.

**3.9** In March 2003, the Government approved a budget of \$32.6 million for the Voluntary Licence Reduction Program. Following DSE's assessment of the Voluntary Licence Reduction Program applications, DSE revised its estimate of the Program cost to \$31.2 million.

**3.10** The Program cost is being driven by the buy-back prices for the species and grade of sawlogs under licence, established by the Treasurer and the Minister for Conservation and Environment in August 2002. The buy-back prices are listed in the application guidelines for the Voluntary Licence Reduction Program<sup>3</sup>.

**3.11** In addition to being paid a set dollar amount per net cubic metre for the licence they are surrendering, as part of the Voluntary Licence Reduction Program, licensees also receive:

- compensation for the projected loss on sale of operational plant and equipment associated with dry mill operations; and
- reimbursement of specific costs for rehabilitation works associated with the closure of an operational mill site up to a total cost of \$100 000.

**3.12** Licensees may also receive:

- reimbursement of reasonable costs associated with obtaining financial or legal advice about a Voluntary Licence Reduction Program offer; and
- reimbursement of statutory redundancy entitlements paid to employees.

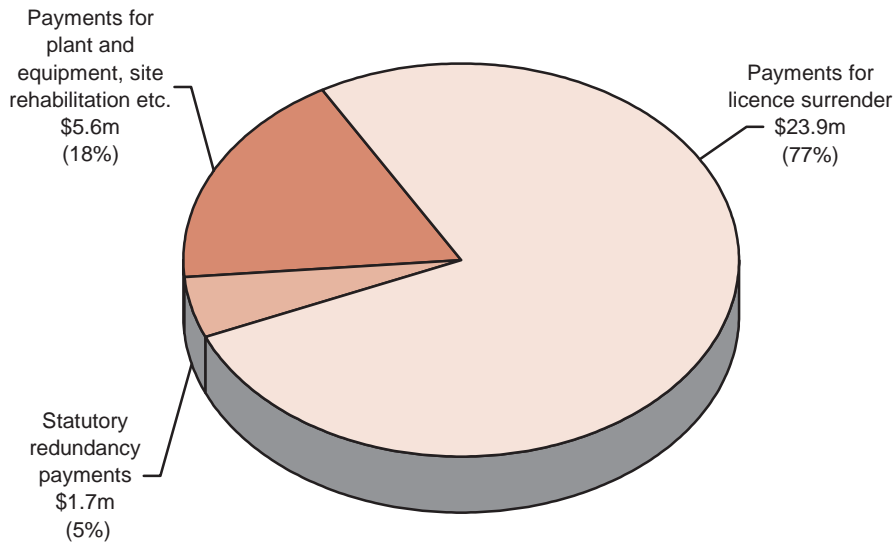
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<sup>2</sup> Australian Labor Party, *Forests and National Parks, Labor's Plan to Ensure Victoria's Forests are Here to Stay*. ALP, Melbourne, 2002.

<sup>3</sup> Rural Finance Corporation (2002), *Hardwood Sawlog License Reduction Program – Application Guidelines*. <http://www.ruralfinance.com.au/govt/> Accessed 16 June 2003.

**3.13** The breakdown of projected expenditure for the Voluntary Licence Reduction Program is set out in Figure 3C.

**FIGURE 3C  
VOLUNTARY LICENCE REDUCTION PROGRAM,  
PROJECTED EXPENDITURE BY CATEGORY**



Source: Victorian Auditor-General's Office, based on data provided by the Department of Sustainability and Environment.

**Did DSE deliver the reduction in licensed sawlog volume on time?**

**3.14** The audit found that DSE will achieve its target reductions in licensed sawlog volume faster than expected. DSE had planned to buy back licensed sawlog volumes in 3 “rounds” from 30 August 2002 to 31 July 2003. By the end of the first round on 31 October 2002, there were sufficient applications to meet the target licensed sawlog volumes and fulfil the Voluntary Licence Reduction Program’s objectives. In addition, the Rural Finance Corporation administered the buy-back of licensed sawlog volume promptly.

### **Did DSE and the Rural Finance Corporation administer the Voluntary Licence Reduction Program according to the guidelines?**

**3.15** The audit found that DSE and the Rural Finance Corporation administered the Voluntary Licence Reduction Program (VLRP) according to the Program's guidelines, with the following variations that the Secretary or officers of DSE directed the Corporation to undertake:

- Two instances in which the Secretary, DSE instructed the Rural Finance Corporation to vary the formula used to calculate the compensation for the licensed volumes being surrendered. The total additional cost of these 2 variations was approximately \$512 000;
- One instance where the Secretary, DSE instructed the Rural Finance Corporation to buy back some licensed sawlog volume even though the species was ineligible. The cost of this instruction was \$21 000; and
- One instance where DSE instructed the Rural Finance Corporation not to recoup all outstanding royalties owed by a licensee, prior to buying back one of their logging licences. The total cost of royalties not recouped, most of which related to another licence, was \$120 000. The licensee has now paid all of the outstanding royalties.

**3.16** We also found that there were instances where licensee applicants owed DSE outstanding royalties. With the exception discussed above, these were settled as part of the licence buy-back. As a result, and as part of the next financial audit of DSE, this Office will examine DSE's debt management practices.

## **CONCLUSION**

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**3.17** DSE has established the foundations for the sustainable management of State forests by reducing licensed sawlog volumes in these forests to the target levels.

**3.18** DSE has achieved this reduction by:

- buying back the Government's Statewide target licensed sawlog volume;
- buying back the target licensed sawlog volumes for each FMA, except the Central Gippsland and Midlands FMAs; and
- making operational arrangements to reduce *actual harvesting* to the required levels in the Midlands FMA by 30 June 2004 and in the Central Gippsland FMA by 30 June 2008.

**3.19** DSE has implemented the VLRP efficiently, by:

- reducing licensed sawlog volumes to the target levels for significantly less than its original budget estimates; and
- achieving the objectives of the VLRP faster than expected.

**3.20** DSE and the Rural Finance Corporation have administered the VLRP according to the VLRP guidelines, with some variations that the Secretary or officers of DSE directed the Corporation to undertake.

## **MANAGING THE SOCIAL CONSEQUENCES OF REDUCED LOGGING**

### **Assisting forest industry workers**

**3.21** The Government has committed to cushioning the impacts of the licence buy-back on forest industry workers. To this end, the Department for Victorian Communities (DVC) is implementing the Worker Assistance Program, using funds provided by the Department of Sustainability and Environment (DSE). DVC has contracted on-the-ground program delivery to a service provider, the Forest and Forest Products Employment Skills Company (FAFPESC).

#### ***What are the objectives of the Worker Assistance Program?***

**3.22** The stated objective of the Worker Assistance Program is to help timber workers directly affected by the Voluntary Licence Reduction Program and Contractor exits. The program “is intended to help:

- eligible native timber industry workers to undertake job search, to obtain preparatory and vocational training and to relocate to new areas for employment;
- new employers of eligible former native timber industry workers, through wage subsidies; and
- existing employers of native timber industry workers to manage restructuring and retrenchment programs which assist those workers”<sup>4</sup>.

#### ***Who is eligible for assistance?***

**3.23** To be eligible for the Worker Assistance Program, people must, as a minimum, have been either:

- employed by sawmills or harvest and/or haulage contractors, working in the Victorian native forest timber industry; or
- directors or principals of sawmills<sup>5</sup>.

**3.24** People in both groups must also meet some additional eligibility criteria, regarding their past and current working arrangements.

<sup>4</sup> Department for Victorian Communities, *Our Forests, Our Future Worker Assistance Program Guidelines*, p. 4. Department for Victorian Communities, Melbourne, 2002. <http://www.employment.vic.gov.au/forestry> Accessed 16 June 2003.

<sup>5</sup> Department for Victorian Communities, *Our Forests, Our Future: Guidelines for Working Principals to Access the Worker Assistance Program, Annexure to the Worker Assistance Program Guidelines*. Department for Victorian Communities, Melbourne, 2002. <http://www.employment.vic.gov.au/forestry> Accessed 16 June 2003.



**3.25** The eligibility criteria reflect the *Our Forests, Our Future* policy objectives and the objectives of the Worker Assistance Program. For the purposes of the Worker Assistance Program, all eligible people are referred to as “workers”.

***What assistance is to be provided?***

**3.26** The Worker Assistance Program provides the following types of assistance:

- Industry Restructure Payment in addition to any benefits paid by a former employer;
- training and job search assistance that provides financial support for training, to help workers upgrade their skills and enhance their prospects of securing and successfully performing a new job;
- Relocation Assistance that provides financial support for relocation to a new job;
- Employment Incentive Scheme which provides employers with wage subsidy assistance to employ eligible workers;
- Industry Restructure Payment – Voluntary Departure which is paid to an employee in the Victorian native forest timber industry who wishes to leave the industry and by so doing, creates a vacancy which should be filled by an identified eligible redeployed worker; and
- travel assistance to attend job interviews or travel to a new place of employment (detailed in Relocation Assistance)<sup>6</sup>.

**3.27** The program guidelines also state that “if you are an eligible, you may have access to one or more of the following types of training, to help you get a new job:

- assessment and recognition of your skills;
- training before you are retrenched;
- training immediately after you are retrenched; and
- training for, or in, any job you may find”<sup>7</sup>.

***Is the Department for Victorian Communities meeting the Program objectives?***

**3.28** DVC is meeting the objectives of the Worker Assistance Program. However, the Program, designed to run for 2 years and to assist eligible workers for 2 years, had only been in place for 8 months at the time of the audit.

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<sup>6</sup> Department for Victorian Communities, *Our Forests, Our Future Worker Assistance Program Guidelines*, pp. 5-6. Department for Victorian Communities, Melbourne, 2002. <http://www.employment.vic.gov.au/forestry> Accessed 16 June 2003.

<sup>7</sup> *ibid*, p. 7.

### Assistance provided

**3.29** Under the Worker Assistance Program, in 2002-03:

- DVC provided 350 individuals with almost \$11 million in industry restructure payments;
- FAFPESC delivered approximately \$1 million of job search, training and relocation assistance to eligible people; and
- for these services, DVC paid FAFPESC \$700 000 in fees.

**3.30** Figure 3D shows the number of people assisted and actual expenditure to 30 June 2003.

**FIGURE 3D  
ASSISTANCE PROVIDED THROUGH THE WORKER ASSISTANCE PROGRAM,  
TO 30 JUNE 2003**

	<i>Individuals assisted</i>	<i>Cost of assistance provided</i>
	<i>(no.)</i>	<i>(\$'000)</i>
Provided directly by Department for Victorian Communities -		
Industry restructure payments	350	10 946
DVC administration	n.a.	179
Provided through Forest and Forest Products Employment Skills Company -		
Skills assessment	134	245
Pre-retrenchment training	75	42
Post-retrenchment training	131	450
Vocational training	97	160
Employment Incentive Scheme	-	-
Non-assistance-related payment	1	4
Relocation assistance	10	60
Service provider fees	n.a.	691
<b>Total</b>	<b>n.a.</b>	<b>12 777</b>

Source: Victorian Auditor-General's Office, based on information provided by the Department for Victorian Communities.

### Employment outcomes

**3.31** We also examined the Worker Assistance Program's employment outcomes, because there is an expectation that the Program will assist displaced workers to secure new jobs or retire if they wish to do so.

**3.32** By 30 June 2003, almost two-thirds of displaced workers whom DVC assessed as eligible for the Program had secured another job. A further 21 per cent were still undertaking training. The unemployment rate for the group was 5.6 per cent<sup>8</sup>, which is comparable with the rate for regional Victoria (5.3 per cent) and about half the national unemployment rate for the Agriculture, Fishing and Forestry industry (approximately 10 per cent)<sup>9</sup>. Details are provided in Figure 3E.

**3.33** At 30 September 2003, 72 per cent of displaced workers (294 people) had secured another job. However, 11.7 per cent (39 people) were unemployed. DVC has indicated that the increase in the unemployment rate at this time is due to the closure of 3 mills in August and September, displacing 35 workers.

**FIGURE 3E  
WORKER ASSISTANCE PROGRAM, RESULTS TO 30 JUNE 2003**

<i>Status on 30 June 2003</i>	<i>Individuals</i>	
	<i>(no.)</i>	<i>(%)</i>
Workers eligible for Worker Assistance Program -		
Obtained new jobs (in the timber industry or in other industries) -		
Full-time	163	47
Part-time	28	8
Casual	29	8
<b>Total obtained jobs</b>	<b>220</b>	<b>63</b>
Undertaking training	73	21
Retired voluntarily	21	6
Unemployed	13	4
Not actively seeking employment	13	4
Other (e.g. WorkCover)	8	2
<b>Total</b>	<b>348</b>	<b>100</b>
Workers ineligible for Worker Assistance Program or whose applications are pending -		
Workers deemed ineligible	5	n.a.
Workers whose applications are pending	26	n.a.
<b>Total number of workers who applied</b>	<b>379</b>	<b>n.a.</b>

Source: Victorian Auditor-General's Office, based on information provided by the Department for Victorian Communities.

<sup>8</sup> Unemployment rate calculated by the Victorian Auditor-General's Office: the number of unemployed persons (13) as a percentage of the sum of those working (220) and unemployed (13).

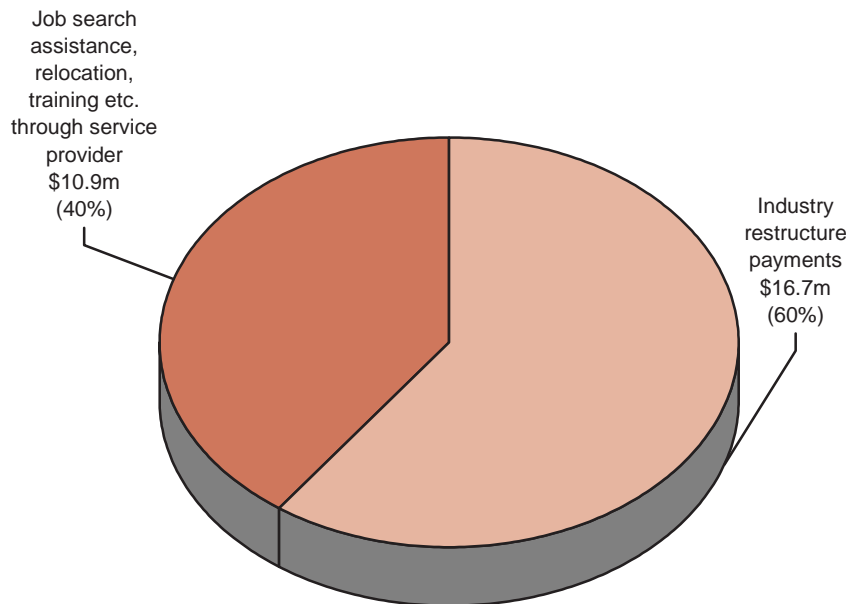
<sup>9</sup> Derived by Victorian Auditor-General's Office, using Australian Bureau of Statistics, *Labour Force (6203.0)*, February 2003.

**How much will it cost to assist workers?**

**3.34** DSE originally estimated the cost of the Worker Assistance Program at \$15 million, based on the cost of a previous program, the Victorian Forest Industry Structural Adjustment Package (VicFISAP). Following advice from the Industry Transition Taskforce, the Government approved amended terms for the worker assistance packages, including making the packages available to eligible sawmill principals. This had the effect of increasing the budget to \$29.4 million. DSE estimates that the Program will cost \$27.6 million.

**3.35** The Worker Assistance Program packages are made up of industry restructure payments and assistance with job search, training and relocation expenses. A breakdown of these components is set out in Figure 3F.

**FIGURE 3F  
WORKER ASSISTANCE PROGRAM,  
PROJECTED EXPENDITURE BY CATEGORY**



Source: Victorian Auditor-General’s Office, based on data provided by the Department of Sustainability and Environment.

**3.36** We examined the files of 6 workers who were eligible for industry restructure payments. No evidence of incorrect payments was found, however, 3 of the files show inadequate processes for checking assessments. Since these assessments were conducted, the Department for Victorian Communities has revised and improved its checking processes.

### **Assisting harvest and haulage contractors**

**3.37** The Government has committed to assisting harvest and haulage contractors adjust to the impacts of the Voluntary Licence Reduction Program. This assistance is being provided through the Contractor Assistance Program. Some Program components are administered by DVC and others by the Rural Finance Corporation.

#### ***What are the objectives of the Contractor Assistance Program and who is eligible for assistance?***

**3.38** When applications opened for the Contractor Assistance Program in November 2002, the stated program objective was "... easing the transition for contractors directly affected as a result of the implementation of the Voluntary Licence Reduction Program"<sup>10</sup>. The guidelines established that eligible contractor businesses were those that:

- directly participated in the forest industry or were directly dependent on the industry; and
- were adversely affected by the licence buy-back.

**3.39** During the audit, DSE indicated that they also recognised that the Contractor Assistance Program could contribute to the restructuring of the harvest and haulage sector. This restructuring would encourage best practice workplace and environmental management systems in the sector.

**3.40** DSE had intended to achieve this outcome by directing the budgeted amount of assistance to contractors who have the oldest plant and equipment and the poorest occupational health and safety and environmental management records.

**3.41** The Industry Transition Taskforce had also recognised the need to ensure that the contractors who are retained in the industry, after the Contractor Assistance Program is completed, are those that demonstrate best practice workplace and environmental management systems.

#### ***What assistance is to be provided?***

**3.42** The Contractor Assistance Program provides assistance to eligible contractors as "business elements" and "non-business elements".

**3.43** The business elements of the Contractor Assistance Program comprise:

- compensation for 100 per cent of the projected loss on the sale of operational plant and equipment, based on an independent assessment of the fair market value of that plant and equipment;

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<sup>10</sup> Department of Natural Resources and Environment (2002), *Contractor Assistance Program Fact Sheet*. <http://www.dse.vic.gov.au> Accessed 1 April 2003. Also described in Rural Finance Corporation (2002), *Our Forests, Our Future Industry Transition Program, Contractor Assistance Program, Application Guidelines*. <http://www.ruralfinance.com.au/govt> Accessed 15 July 2003.

- reimbursement of statutory redundancy entitlements paid to eligible employees who have been made redundant as a result of the business closing; and
- reimbursement of up to \$1 000 towards the cost of obtaining professional advice about the Program.

**3.44** DSE has contracted the administration of the business elements to the Rural Finance Corporation.

**3.45** The non-business elements of the Contractor Assistance Program comprise:

- a one-off, up-front industry restructure payment;
- training and assistance with searching for a job; and
- relocation assistance<sup>11</sup>.

**3.46** DSE has contracted the administration of the non-business elements to DVC.

### ***Has this assistance been provided?***

#### ***Business elements***

**3.47** When applications closed on 29 November 2002, the Rural Finance Corporation had received 175 applications for the Contractor Assistance Program. At 30 September 2003, 36 applicants had received, or been assessed as eligible to receive, assistance through the business elements of the Contractor Assistance Program. (A further contractor had been assessed as eligible for the non-business elements of the Program only.) One hundred and nineteen applications were on hold. The remaining applications had been assessed as ineligible for the Program or had been withdrawn.

**3.48** Details of the assistance provided through the “business elements” of the Program are set out in Figure 3G.

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<sup>11</sup> Rural Finance Corporation (2002), *Our Forests, Our Future Industry Transition Program, Contractor Assistance Program, Application Guidelines*. <http://www.ruralfinance.com.au/govt> Accessed 15 July 2003.

**FIGURE 3G**  
**ASSISTANCE THROUGH CONTRACTOR ASSISTANCE PROGRAM (BUSINESS ELEMENTS),**  
**PROVIDED BY RURAL FINANCE CORPORATION**

<i>Outcome (a)</i>	<i>Firms</i>	<i>Amount</i>
	<i>(no.)</i>	<i>(\$'000)</i>
Business elements -		
Contractors assisted, or to be assisted, who are exiting totally -		
Paid	26	5 191
Committed	6	927
Contractors assisted, or to be assisted, who are partially exiting -		
Paid	3	1 208
Committed	1	173
<b>Total number of contractors assisted or to be assisted</b>	<b>36</b>	<b>7 499</b>
Contractors deemed eligible for non-business elements only	1	n.a.
Contractors deemed <i>ineligible</i> or applications withdrawn	19	n.a.
Applications received by Rural Finance Corporation but "on hold"	119	n.a.
<b>Total number of applications received</b>	<b>175</b>	<b>n.a.</b>

(a) Based on Rural Finance Corporation assessments undertaken by 30 September 2003.

Source: Victorian Auditor-General's Office, based on information provided by the Rural Finance Corporation. Non-business elements.

**3.49** At 30 June 2003, 34 individuals<sup>12</sup> had received an industry restructure payment from DVC. Three had received vocational training from FAFPESC and 2 had received relocation assistance. Details are provided in Figure 3H.

<sup>12</sup> There were an additional 2 contractors who had applied for assistance under the Contractor Assistance Program, but the processing of their applications was not complete as the business had not yet formally closed.

**FIGURE 3H  
ASSISTANCE PROVIDED THROUGH THE CONTRACTOR ASSISTANCE PROGRAM  
(NON-BUSINESS ELEMENTS), TO 30 JUNE 2003**

	<i>Individuals assisted</i>	<i>Cost of assistance provided</i>
	<i>(no.)</i>	<i>(\$'000)</i>
Provided by the Department for Victorian Communities -		
Industry restructure payments	34	2 012
DVC administration	n.a.	97
Provided through the Forest and Forest Products Employment Skills Company -		
Skills assessment	3	7
Pre-retrenchment training	-	-
Post-retrenchment training	3	6
Vocational training	3	4
Employment Incentive Scheme	-	-
Non-assistance-related payment	-	-
Relocation assistance	2	27
Service provider fees	n.a.	372
<b>Total</b>	<b>n.a.</b>	<b>2 525</b>

Source: Victorian Auditor-General's Office, based on information provided by the Department for Victorian Communities.

**3.50** At 30 June 2003, approximately three-quarters of the eligible contractor principals had secured another job, and a quarter had retired voluntarily. Details are provided in Figure 3I.

**FIGURE 3I  
CONTRACTOR ASSISTANCE PROGRAM - RESULTS AT 30 JUNE 2003**

<i>Status on 30 June 2003</i>	<i>Individuals</i>	
	<i>(no.)</i>	<i>(%)</i>
Obtained new jobs (in the timber industry or in other industries) -		
Full-time	20	56
Part-time	3	8
Casual	3	8
<b>Total obtained jobs</b>	<b>26</b>	<b>72</b>
Undertaking training	-	-
Retired voluntarily	9	25
Unemployed	-	-
Not actively seeking employment	1	3
Other (e.g. WorkCover)	-	-
<b>Total</b>	<b>36</b>	<b>100</b>

Source: Victorian Auditor-General's Office, based on information provided by the Department for Victorian Communities.

**3.51** At 30 September 2003, an additional 2 contractor principals were unemployed with no change to the number who had secured employment.



### **Applications on hold**

**3.52** DSE and the Industry Transition Taskforce have indicated to the Rural Finance Corporation that the 119 applications on hold should not proceed until further notice. Final determination of the treatment of the Contractor Assistance Program applications was dependent upon settling the final licence buy-back volume.

**3.53** At the time of the audit, these 119 applications had been on hold for 8 months. This delay has created uncertainty for contractors.

**3.54** Since the February 2003 bushfires occurred, DSE has been examining the number of harvest and haulage contractors that the industry will need to salvage the burnt timber over the next 2 years. DSE estimates that most of the remaining contractors (above and beyond the 37 who have been assessed as eligible) will be needed for this salvage work, subject to their equipment capability and their ability to relocate.

### **How much will the Contractor Assistance Program cost?**

**3.55** Following consultations with the Industry Transition Taskforce, the Government agreed to a Contractor Assistance Program, which DSE announced in August 2002<sup>13</sup>. Applications opened on 1 November 2002. In March 2003, the Government approved a final budget of \$12.6 million for this Program.

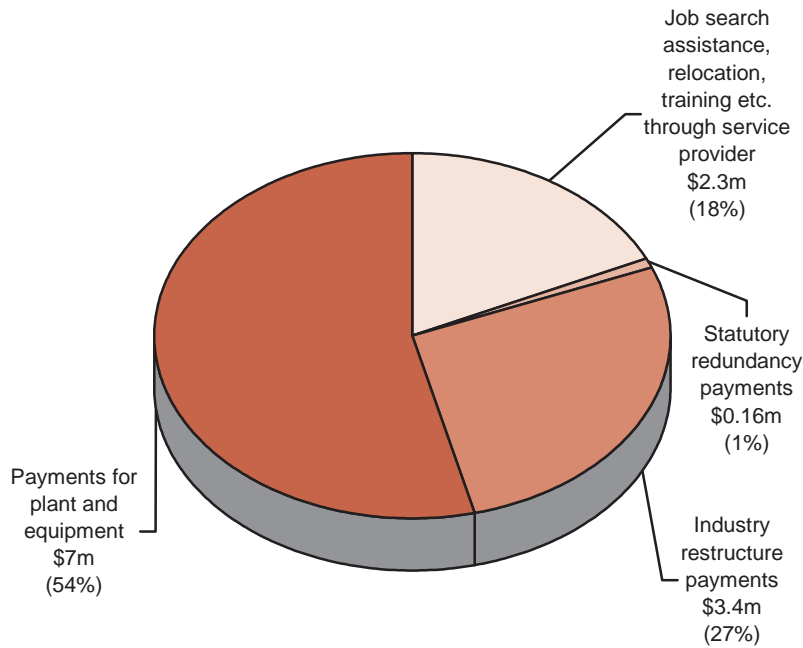
**3.56** DSE estimates that the cost of assisting the 37 contractors who have been assessed as eligible for the Contractor Assistance Program is expected to be more than this; \$13 million.

**3.57** A breakdown of projected expenditure for the Contractor Assistance Program components is set out in Figure 3J.

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<sup>13</sup> Department of Natural Resources and Environment (2002), *Contractor Assistance Program Fact Sheet*. <http://www.dse.vic.gov.au> Accessed 1 April 2003.

**FIGURE 3J  
CONTRACTOR ASSISTANCE PROGRAM,  
PROJECTED EXPENDITURE BY CATEGORY**



Source: Victorian Auditor-General's Office, based on data provided by Department of Sustainability and Environment.

**3.58** As reported earlier, DSE has not yet decided whether to provide assistance for any more contractors under the Contractor Assistance Program. Assisting more contractors would require more funding.

## CONCLUSION

### Worker Assistance Program

**3.59** Through the Worker Assistance Program, DVC has begun assisting forest industry workers undertake training, relocate, secure new jobs or retire if they wish to do so. However, since the Worker Assistance Program is in the early days of its operation, it is too early to conclude whether the Program will achieve its objectives over its 4-year life.

### Contractor Assistance Program

**3.60** DSE's delay in implementing the Contractor Assistance Program has created uncertainty for contractors.

## RECOMMENDATIONS

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**3.61** We recommend that DSE and DVC continue to monitor the results of the Worker Assistance Program, to ensure that the early Program outcomes are maintained.

**3.62** We recommend that DVC ensures that its revised processes for checking assessments in the Worker Assistance Program are maintained.

**3.63** We recommend that DSE makes it a priority to:

- confirm whether it will be using the Contractor Assistance Program to restructure the harvest and haulage contracting sector of the industry;
- confirm the criteria that will be used to determine eligibility for assistance through the Program;
- ensure that the Program's objectives and eligibility criteria are clear and readily discernible to the community;
- complete the Program using these objectives and criteria; and
- ensure that the Program is managed and administered so that all decisions, particularly decisions about eligibility for assistance, are clearly explained to all applicants and are fully documented.

*RESPONSE provided by the Secretary, Department of Sustainability and Environment*

*The Contractor Assistance Program was introduced to assist structural adjustment in the harvesting and haulage sector in response to the reduction in resource available to the industry. As more applications for assistance were received than were required to reflect the impact of the "Our Forests, Our Future" resource reductions, it was necessary to seek input from industry stakeholders on the prioritisation of applications for assistance. The Industry Transition Taskforce played a key role in this prioritisation process.*

*Finalisation of the Contractor Assistance Program has been delayed by the need to resolve with key industry stakeholders the contracting requirements for the substantial salvage harvesting program now underway, and to receive advice from logging syndicates as to which contractors had been assigned work for the coming harvesting season.*

*Detailed discussions with the industry to confirm these details is nearing completion at which time the program can be finalised.*

*RESPONSE provided by the Secretary, Department for Victorian Communities*

*I would like to bring to your attention that in April 2003 the Department revised its internal administrative processes for the Forest Worker Assistance Program, particularly with respect to cross-checking assessment information and continues to introduce further quality assurance processes.*

*I would also like to reassure you that in the 3 instances where it was identified that client files showed inadequate processes for checking assessments that this has since been rectified. As your report states, there is no evidence of incorrect payments being made as a result of this administrative error.*

## Part 4

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# Future audits

## MONITORING SUSTAINABLE FOREST MANAGEMENT

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### The second phase of the audit

**4.1** This report describes DSE's progress towards sustainable management of State forests by reducing logging to sustainable levels and managing the social consequences of this reduction. Building on these foundations, DSE is implementing the other *Our Forests*, *Our Future* commitments.

**4.2** This audit will be followed with a second phase that aims to establish, in parallel with DSE's implementation of other *Our Forests*, *Our Future* commitments, criteria for assessing the effectiveness of the implementation and impact of all the *Our Forests*, *Our Future* policy commitments.

**4.3** During this second phase, we will address:

- all 3 aspects of sustainable forest management: environmental, social and economic; and
- DSE's use of inclusive processes, as mentioned in paragraphs 2.1 and 2.19.

**4.4** The results of the second audit phase will be a reporting framework, comprising performance indicators and standards, which DSE, the Government and the community can use to monitor the implementation and effectiveness of sustainable forest management in Victoria's State forests.

**4.5** An audit of the implementation of the *Our Forests*, *Our Future* commitments could be undertaken subsequently.

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# Appendix A

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## Budget and projected expenditure

**FIGURE A1**  
**“OUR FORESTS, OUR FUTURE” BUDGET, PROJECTED EXPENDITURE AND ACTUAL**  
 (\$'000)

	<i>Budget 2002-03 to 2006-07</i>		<i>Projected expenditure 2002-03 to 2006-07</i>	<i>Actual expenditure 2002-03</i>
	<i>At February 2002</i>	<i>At March 2003</i>		
Voluntary Licence Reduction Program - Payments for licence surrenders, including transport subsidy			23 929	17 842
Voluntary Licence Reduction Program statutory redundancy payments			1 696	1 515
Payments for plant and equipment, site rehabilitation and reimbursement for advice			5 573	3 490
<b>Sub-total</b>	<b>(a) 47 000</b>	<b>32 600</b>	<b>31 198</b>	<b>22 847</b>
Worker Assistance Program - Industry restructure payments to sawmill employees			10 094	7 882
Industry restructure payments to harvest and haulage contractors' employees			4 757	2 904
Industry restructure payments to working directors and principals of sawmills			1 835	160
Service provider fee			2 535	691
Payments for training and job search assistance, relocation etc. by service provider			8 390	974
<b>Sub-total</b>	<b>15 000</b>	<b>29 400</b>	<b>27 611</b>	<b>12 611</b>
Contractor Assistance Program - Industry restructure payments to principals of harvest and haulage contracting businesses			3 408	2 012
Payments for plant and equipment			7 046	3 091
Reimbursement for advice			49	40
Contractor Assistance Program statutory redundancy payments			160	30
Service provider fee			1 356	372
Payments for training and job search assistance, relocation etc. by service provider			990	31
<b>Sub-total</b>		<b>12 600</b>	<b>13 009</b>	<b>5 576</b>
Other Forest Projects - DSE forest projects and stewardship program management	8 000		5 560	1 671
Response to recommendations of Expert Data Reference Group	8 500		4 420	1 675
Establishment of VicForests	1 500		2 020	1 078
<b>Sub-total</b>	<b>18 000</b>	<b>12 000</b>	<b>12 000</b>	<b>4 424</b>

**FIGURE A1**  
**“OUR FORESTS, OUR FUTURE” BUDGET, PROJECTED EXPENDITURE AND ACTUAL**  
 (\$'000) - *continued*

	<i>Budget 2002-03 to 2006-07</i>		<i>Projected expenditure 2002-03 to 2006-07</i>	<i>Actual expenditure 2002-03</i>
	<i>At February 2002</i>	<i>At March 2003</i>		
Program design and administration -				
DSE overheads (not allocated to Other Forest Projects)			1 102	980
RFC and DVC			1 960	526
RFC assessments			720	605
Industry Transition Taskforce administration			1 000	682
Stakeholder facilitation (3 grants to industry bodies)			300	300
<b>Sub-total</b>		<i>(b) 2 300</i>	<b>5 082</b>	<b>3 093</b>
<b>Total</b>	<b>80 000</b>	<b>88 900</b>	<b>88 900</b>	<b>48 551</b>

(a) Originally referred to as “Industry Transition assistance”.

(b) Originally did not include administrative costs of Rural Finance Corporation and Department for Victorian Communities.

Source: Victorian Auditor-General’s Office, derived from information provided by the Department of Sustainability and Environment.



# Acronyms

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ABS	Australian Bureau of Statistics
CAP	Contractor Assistance Program
CFMEU	Construction, Forestry, Mining and Energy Union
DPC	Department of Premier and Cabinet
DSE	Department of Sustainability and Environment
DVC	Department for Victorian Communities
EDRG	Expert Data Reference Group
ERC	Expenditure Review Committee
FAFPESC	Forest and Forest Products Employment Skills Company
FMA	Forest Management Area
IRP	Industry restructure payment
ITT	Industry Transition Taskforce
NRE	Department of Natural Resources and Environment (now Department of Sustainability and Environment)
OHS	Occupational Health and Safety
PAEC	Public Accounts and Estimates Committee
RFA	Regional Forest Agreement
RFC	Rural Finance Corporation
SFRI	Statewide Forest Resource Inventory
STIC	Sustainable Timber Industry Council
VAFI	Victorian Association of Forest Industries
VFHCC	Victorian Forest Harvesting and Cartage Council
VLRP	Voluntary Licence Reduction Program
VAGO	Victorian Auditor-General's Office
VicFISAP	Victorian Forest Industry Structural Adjustment Program
WAP	Worker Assistance Program

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(a) This report is included in Part 3.2, Human Services section of the *Report on Ministerial Portfolios*, June 2001.

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