



Managing Victoria's Native Forest Timber Resources



VICTORIA

Victorian
Auditor-General

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The Hon. Bruce Atkinson MLC
President
Legislative Council
Parliament House
Melbourne

The Hon. Ken Smith MP
Speaker
Legislative Assembly
Parliament House
Melbourne

Dear Presiding Officers

Under the provisions of section 16AB of the *Audit Act 1994*, I transmit my report on the audit *Managing Victoria's Native Forest Timber Resources*.

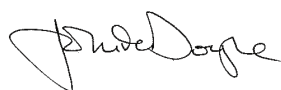
This audit examined whether Victoria's native forest timber resources on public land in eastern Victoria are being managed productively and sustainably.

I found that the Department of Environment and Primary Industries (DEPI) and VicForests are managing the timber resources in a productive way that delivers socio-economic benefits to regional communities and some financial payments to the state. VicForests has demonstrated that its commercial decisions balance the need for long-term economic returns with the need to support a sustainable industry.

DEPI and VicForests demonstrate many environmentally, socially and economically sustainable practices to fulfil their roles in timber resource management. However, DEPI is not effectively delivering its approach to protect forest values, and needs to improve the way it documents decisions affecting where harvesting can occur.

I could not assess whether the agencies had made suitable progress in sustainably managing the timber resources or if they had achieved the desired outcomes, such as protecting endangered species from harvesting impacts, because DEPI has not had the measures, monitoring and data in place to assess this. It has recognised this issue and is addressing it.

Yours faithfully



John Doyle
Auditor-General

11 December 2013

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Auditor-General's comments



John Doyle
Auditor-General

Forests provide innumerable benefits to Victorians, including conserving flora and fauna, protecting water catchments and water supply, providing timber for sustainable forestry, protecting archaeological and historic values, and providing recreational and educational opportunities. Given that only around 50 per cent of the forests present in Victoria prior to European settlement still remain, the government has an important responsibility to manage the remaining forests for the benefit of our environment and for all Victorians, now and into the future.

In this audit, I examined how the government manages the systems in place to deliver sustainable timber resource management outcomes, how well they are operating and what they are achieving. Timber harvesting is an important and productive use of Victoria's state forest timber resource, but is accompanied by challenges and can have serious impacts on the sustainability of the forests.

The timber resource is being used productively but the environmental, economic and social sustainability of timber resource management can be further improved. The audit found weaknesses in how state forest values are protected and managed as well as weaknesses in the monitoring and measurement processes and data around sustainable state forest management. Achieving a sustainable balance between the different uses that can occur in state forests, including timber harvesting, will remain a challenge. Agencies will need to continue to appropriately evolve and respond to changing circumstances, such as future bushfires and market competition.

I am encouraged that the collaboration between Department of Environment and Primary Industries (DEPI), Department of Treasury and Finance and VicForests is continuing to develop. Together they are reviewing and considering opportunities for the improved sustainable use of the forests and timber production. I am also encouraged by DEPI's planned way forward for threatened species and public land management, which I will be closely monitoring and may come back and review in the future.

I have made 11 recommendations that will assist the agencies in better managing Victoria's native forest timber resources. It is pleasing that the agencies have accepted and committed to implementing my recommendations, but at this stage DEPI has not advised the specific actions to be taken or time frames for implementation. I will follow this up with the department over the next three months.

Audit team

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Control Reviewer*

I would like to thank agency staff for their assistance and cooperation during this audit, and I look forward to receiving updates on their progress in implementing the recommendations.

A handwritten signature in black ink, appearing to read 'John Doyle', with a stylized, cursive script.

John Doyle
Auditor-General
December 2013

Audit summary

Victoria aims to manage its 7.14 million hectares of native forest on public land sustainably. While over half of this land is conservation parks and reserves, around 3.14 million hectares is state forest. In addition to conservation, state forests allow for a range of uses including timber harvesting and mineral extraction, in accordance with ecologically sustainable development principles.

Around 1.82 million hectares of state forest is available for timber harvesting. Between 2007 and 2013, an average of 5 000 hectares of this was harvested each year in eastern Victoria. Native forest timber harvesting has generated around \$1 billion in revenue for VicForests since 2004.

Good management of timber resources is needed to preserve both the environmental heritage of Victoria and the communities the timber industry sustain.

The Department of Environment and Primary Industries (DEPI) is responsible for sustainably managing all public forests, including state forests, and for regulating timber harvesting. DEPI also supports the Minister for Agriculture and Food Security in his governance responsibilities over VicForests. VicForests is responsible for managing, harvesting and selling public native timber in eastern Victoria. The Department of Treasury and Finance (DTF) supports the Treasurer in his role as the sole shareholder of VicForests and oversees its commercial and financial performance.

This audit examined whether DEPI and VicForests are managing native forest timber resources on public land productively and sustainably and whether DEPI and DTF are fulfilling their oversight and advisory roles adequately.

Conclusions

Victoria's timber resources are being managed productively. However, the environmental, social and economic sustainability of timber resource management could be enhanced by improving the way DEPI protects forest values, documents decisions affecting where harvesting can occur, and manages its backlog of forest regeneration from before 2004. VicForests can also improve its process for estimating sustainable harvest levels.

DEPI has not had the measures, monitoring and data to show what its activities are achieving, or how forest health and the condition of other forest values are faring over time. It is now working to address these gaps.

VicForests and DEPI need to build on the strengths of their current collaborative approach, measure progress and continue to adapt their management of Victoria's timber resources to meet and respond to foreseeable future challenges and pressures.

Findings

Is there adequate progress towards sustainability goals?

Gaps in DEPI's state forest and timber resource management performance reporting make it difficult to assess how well DEPI's and VicForests' efforts are contributing to sustainable outcomes.

There are regional goals for sustainable state forest management but no overarching goal. There are no regional objectives, performance measures and targets but these are needed so that DEPI can measure the progress and success of its state forest management activities. DEPI is developing a new approach to public land planning and intends to develop regional objectives, measures and targets as part of this process. It will also need to develop an overarching goal for state forest management.

DEPI also has goals and objectives for sustainable timber resource management. VicForests develops corporate objectives, measures and targets aligned with these. Its reporting on them demonstrates VicForests' achievements in improving sustainable timber harvesting management over time.

However, until recently DEPI's measuring and monitoring to assess progress in achieving forest and timber management objectives and goals was weak and lacked reliable data. It is taking important steps towards addressing this by establishing new forest monitoring and improved data collection.

DTF and DEPI manage their roles in supporting the Minister for Agriculture and Food Security and the Treasurer well. The Treasurer, as the shareholder of VicForests, receives regular, formal communication, and DTF reviews VicForests' corporate plans and quarterly financial reports. DEPI appropriately supports the minister in overseeing VicForests by monitoring its corporate governance, compliance with legislative obligations and commercial functions. DEPI is further clarifying the respective roles and responsibilities of the agencies involved in the native timber industry.

Is timber being harvested at a sustainable rate?

DEPI has an established process for deciding where in the forest harvesting can occur and uses its forest management zoning scheme to define these areas. However, there is limited transparency of the assessments DEPI has made when making decisions to amend the forest zoning, and it has not adequately reviewed the scheme over time. This means there is uncertainty about the extent to which the current harvesting areas are consistent with DEPI's harvesting and conservation objectives.

VicForests is harvesting at or within its estimated sustainable harvest level, and harvests less than the area that DEPI allows it to. VicForests continues to improve its largely effective approach for estimating the sustainable harvest level, although there are a number of ways it can improve its 20-year planning for where and when to harvest. It is also well placed to continue to modify its approach over time as circumstances change.

Is harvesting being managed to protect forest values?

DEPI has designed a suite of measures and plans to limit the impacts of activities such as harvesting on forest values. These include setting aside conservation areas, allowing harvesting only in a small proportion of the forest, and specific actions to manage animal and plant species threatened by harvesting and other activities.

DEPI's effectiveness in protecting forest values from harvesting is reduced because it has failed, in some cases, to develop the plans needed to do this, and in many cases it has failed to track and review the progress made and the results achieved.

Until recently, DEPI's measurement of how well forest values are being maintained over time was poor, making it difficult for it to provide assurance about how well values are being protected. The comprehensive forest monitoring program it introduced in 2010 and additional data it is currently collecting are aimed at addressing this gap.

VicForests is meeting its responsibilities to limit the potentially adverse impacts of harvesting on forest values. It has developed a system of management plans and actions to do this, in line with the purposes and principles of the *Sustainable Forests (Timber) Act 2004*. Its effectiveness is confirmed by external audits of its operations by DEPI, and its independent certification to the Australian Forestry Standard.

DEPI and VicForests have designed their management approaches to protect biodiversity values in a precautionary way. As part of this, they each need to improve and better document the way they assess the threats and consequences associated with biodiversity management decisions in harvesting areas and develop more transparent processes in managing the risks and trade-offs involved.

Is harvesting profitable and supporting regional communities?

VicForests' commercial activities demonstrate that it balances the need for long-term profits with the need to support a sustainable industry. It has generated profits in most years and since its inception has paid dividends to the state twice. Its activities generate considerable direct and indirect socio-economic benefits for regional communities.

DEPI and VicForests are working with the industry and other agencies to identify and respond to the current economic and environmental challenges facing the industry, particularly in East Gippsland. VicForests has also carried out strategic planning for longer-term, profitable and sustainable forest use that can continue to support regional communities, but DEPI's long-term planning is not sufficiently holistic or proactive.

Recommendations

Number	Recommendation	Page
	That the Department of Environment and Primary Industries:	
1.	strengthen its sustainable state forest and timber resource performance management by: <ul style="list-style-type: none"> • setting a clear goal for state forest management • establishing regional objectives, progress measures and targets for state forests that take into account both forest and timber resource management • reporting publicly on progress in achieving these 	15
2.	improves the way it manages the forest management zoning scheme, by: <ul style="list-style-type: none"> • reviewing the forest management zoning for eastern Victoria by March 2015 as planned, documenting its approach and the trade-offs made between conservation needs and productive uses • better documenting the assessments underpinning amendment decisions and periodically reviewing how consistently it applies its zoning amendment process 	29
3.	engages appropriate experts to oversee its future five-yearly audits of VicForests' sustainable harvest level planning—with expertise spanning the environmental, social, economic and commercial dimensions of sustainability	29
4.	improves the way it manages its responsibilities for regenerating forest, and monitors VicForests' regeneration compliance, by: <ul style="list-style-type: none"> • prioritising the regeneration of its backlog, to the accepted standards • collecting enough seed to meet regeneration backlog and bushfire recovery needs • reconciling VicForests' regeneration against harvested areas 	29
7.	improves its delivery of forest-related plans and strategies through timely and comprehensive planning, monitoring and review, including: <ul style="list-style-type: none"> • completing, reviewing or renewing the action statements required under the <i>Flora and Fauna Guarantee Act 1988</i> • strengthening its business systems so that the delivery, monitoring, reporting and review of its commitments for managing forest values is consistent, thorough and timely 	40
8.	use its recent biodiversity research findings to: <ul style="list-style-type: none"> • further analyse the impacts of harvesting on at-risk species to determine whether any changes to management approaches or interim measures are needed • inform its reviews of forest management zoning and action statements, and its development of the new integrated regional plans 	40
9.	strengthen its auditing of VicForests' compliance by documenting the rationale underpinning its identification of the high compliance risks associated with harvesting, and mandating the audits	40
11.	more strategically and holistically assess options for addressing issues and opportunities for the industry, and continue to update this planning based on socio-economic information relevant to the native forest timber industry sector.	51

Recommendations – *continued*

Number	Recommendation	Page
	That VicForests:	
5.	continues to improve its approach to scheduling the sustainable harvest level to address identified weaknesses	30
6.	clearly and accurately reconciles its successfully regenerated areas against the area harvested and reports this publicly.	30
	That the Department of Environment and Primary Industries and VicForests:	
10.	improve and better document the assessment of threats and consequences that biodiversity management decisions in timber production areas may have on forest environmental, economic and social values, and more transparently manage the risks and trade-offs involved.	40

Submissions and comments received

In addition to progressive engagement during the course of the audit, in accordance with section 16(3) of the *Audit Act 1994* a copy of this report was provided to the Department of Environment and Primary Industries, the Department of Treasury and Finance and VicForests with a request for submissions or comments.

Agency views have been considered in reaching our audit conclusions and are represented to the extent relevant and warranted in preparing this report. Their full section 16(3) submissions and comments are included in Appendix A.

1 Background

1.1 Introduction

Victoria has around 7.1 million hectares of native forest on public land. Native forests contain plants and animals that are endemic to the area, and provide a wealth of environmental, economic and social benefits to the state. Around 4.0 million hectares of this is forest conservation areas, also known as wilderness, state and regional parks and reserves. These areas are primarily used for conservation, supporting biodiversity, water quality, carbon storing, and provide other values such as recreation.

The remaining 3.1 million hectares is state forest. State forests must be managed to maintain forest values. These include:

- **environmental conservation**—e.g. biodiversity, forest health, water quality
- **productive uses**—e.g. timber production, honey, firewood
- **social and economic values**—e.g. recreation, cultural sites, employment.

There is potential conflict between some of these values—for example preserving biodiversity and allowing for productive uses that disrupt the natural environment, such as harvesting. Without effective management, timber harvesting can lead to long-term adverse impacts on the forest ecosystem. State forest management needs to balance these competing priorities.

Around 1.82 million hectares, or 58 per cent, of state forests is available for timber harvesting. As shown in Figure 1A, in recent years an average of 5 000 hectares has been harvested annually in eastern Victoria, although this has been declining.

Figure 1A
Forest areas, 2013

Area of public native forest	Total (ha)	Percentage of public forest area
Area of public native forest	7 138 000	
Area of state forest	3 138 000	44
Area of state forest available for harvesting in eastern Victoria	1 820 000	25
Area of state forest available and potentially suitable for harvest in eastern Victoria	815 000	11
Area of state forest assessed as currently suitable for harvest in eastern Victoria	490 000	7
Average annual harvest area in eastern Victoria	5 000	0.07

Source: Victorian Auditor-General's Office based on Department of Environment and Primary Industries and VicForests data.

1.2 Sustainable forest management

The aim of sustainable forest management is to manage forests in a way that maintains their biodiversity, productivity and regeneration capacity. It also aims to make forest regions healthier and more productive, taking into consideration the social, economic, environmental and cultural needs of stakeholder groups.

Under the 1992 *National Forest Policy Statement*, Commonwealth, state and territory governments agreed on broad goals for managing Australia's native forests. The goals support the concept of sustainable forest management. The aim is to conserve biodiversity, heritage and cultural values, and at the same time develop a dynamic, competitive and sustainable forest products industry. This is in line with the Montréal Process—the international framework established in 1994 to monitor, measure, assess and report on national forest trends and management.

Major elements of the national policy include a commitment to develop a comprehensive, adequate and representative reserve system, and implement strategies to conserve those reserve areas. Victoria's reserves system meets this commitment and has the following three components:

- **dedicated reserves**—forest areas established by legislation specifically for conservation purposes, e.g. national parks, state parks, flora and fauna reserves
- **informal reserves**—areas of multi-use state forests and other public land that are set aside for conservation through the forest management zoning scheme
- **conservation values protected by management rules**—areas of multi-use state forests and other public land protected from productive uses such as harvesting, including by using stream buffers and rainforest with a surrounding buffer.

The reserves system, together with harvesting regulations, establishes the basis for providing conservation, water, recreation and timber values.

1.3 Native forest timber resources

Native forests provide a timber resource that has a range of potential uses including harvested products, such as sawlogs and firewood, and unharvested products, such as carbon storage and biodiversity. In Victoria the main use is timber harvesting.

The timber industry is a valuable source of employment in many of Victoria's regional areas, employing over 21 000 people. VicForests' annual reporting states that its native forest timber harvesting in eastern Victoria has generated around \$1 billion in direct economic benefits since 2004. Ineffective management of timber resources may affect employment within the sector, which has associated socio-economic impacts.

Commercial activities—mainly timber harvesting—are restricted to specific areas of state forests. Much of the timber harvesting in western Victoria ceased in the 2000s and the main timber harvesting today occurs in eastern Victoria. There is currently minimal commercial harvesting of native timber on private land.

1.3.1 Timber types and products

Victoria's native forest timber industry produces sawlogs, which are used for a variety of wood products in the furniture, flooring and construction industries. The timber industry also produces lower quality logs, which are used for pulp and paper production and firewood.

The sawlog industry depends largely on the ash forests, found at higher elevations in Gippsland and north-eastern Victoria. The other source of sawlogs is mixed-species forests, which tend to produce lower quality timber compared with ash forests. Mixed-species forests are usually composed of at least two eucalypt species and occur widely throughout Victoria's native forests.



Mixed-species forest

When these forests are harvested for sawlogs, there are always parts of the tree that are not sawlog quality—e.g. branches and upper trunk—and trees felled that are not suitable for sawlogs either—e.g. too young or too knotty. This is referred to as 'residual timber' and equates to around two-thirds of the volume harvested. Residual timber is predominantly used for pulp and paper production, with a small amount sold for firewood.

VicForests supplies timber harvested from eastern Victoria to approximately 20 mills across Victoria for processing sawlogs. The largest 10 mills process around 90 per cent of this timber.

Residual timber is primarily processed into pulp at Australian Paper's mill in Maryvale, Gippsland. Some residual timber is also processed into woodchips for export to pulp and paper manufacturers, particularly in Japan.

1.3.2 Harvesting process

Timber harvesting involves a cycle from planning the harvest through to regenerating the harvested area so that the forest will regrow.

The planning processes estimate how much of the available forest can be harvested sustainably. The forest area to be harvested is divided up into smaller harvesting areas called coupes, which are marked and surveyed before being harvested.

The branches and upper trunk are removed at the coupe and the trunks are graded as high- or low-grade sawlogs, or pulp logs. They are then hauled to designated mills. The logs are tracked from forest to mill using a barcode system.

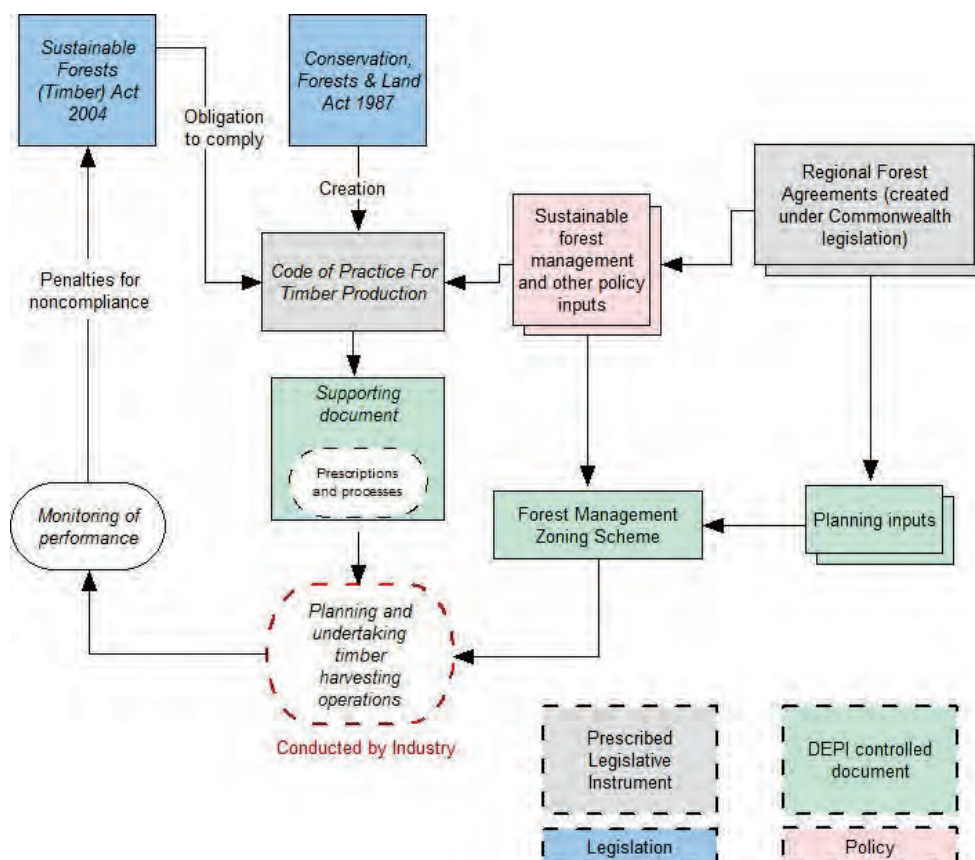
Once harvesting is complete, the aim is to regrow the forest to resemble the forest before harvesting. The coupes are prepared and sown with tree seeds similar to the original species composition.

1.4 Victoria's framework for sustainable forest management and timber harvesting

Most of Victoria's native forests are managed under five 20-year regional forest agreements, which cover sustainable forest management and sustainable forest industries. These agreements were established with the Commonwealth Government between 1997 and 2000 to implement the 1992 *National Forest Policy Statement*. They guarantee wood supply for the timber industry while also creating a system of forest conservation reserves—including national parks and other protected areas. The Commonwealth Government coordinates a national approach to environmental and industry issues, while Victoria is responsible for managing the forests.

A range of state legislation governs forest management and timber harvesting in Victoria and specifies the areas of state forests that are subject to commercial activities. This legislation is supported by various guidelines that require forest management and timber harvesting to be managed sustainably—as shown in Figure 1B. The legislative focus for this audit is the *Sustainable Forests (Timber) Act 2004* (the Act).

Figure 1B
Framework for sustainable forest management
and sustainable timber production



Source: Department of Environment and Primary Industries.

Sustainable Forests (Timber) Act 2004

The Act requires the Minister for Agriculture and Food Security to allocate areas of state forest to VicForests for harvesting through an allocation order. Recent changes to the Act include:

- removing the time limit on the allocation, and allowing contracts of up to 20 years or longer under some circumstances
- no longer requiring VicForests to develop rolling five-year timber release plans that identify where it will harvest under the allocation order
- removing timber harvesting operator licence regulations, as they duplicate existing health and safety and environmental regulations.

Sustainability Charter for Victoria's State forests

Under the Act, the 2006 *Sustainability Charter for Victoria's State forests* binds the Department of Environment and Primary Industries (DEPI) and VicForests to meeting environmental, socio-economic and governance objectives consistent with the Montréal Process.

Regional forest management plans

For state forests in eastern Victoria, four regional forest management plans are used to manage the environmental, social and economic uses and issues relevant to each region. These plans apply three different zones to manage the types of activities allowed across the forests.

Action statements

Produced under the *Flora and Fauna Guarantee Act 1988*, these statements are developed to conserve and manage threatened species and communities and can include requirements for how timber harvesting is conducted.

Environmental regulatory framework

The environmental regulatory framework consists of:

- harvesting requirements set by forest management plans, zoning and action statements
- the *Code of Practice for Timber Production*, which sets standards for timber production to manage environmental, social and cultural impacts from timber production and harvesting activities
- a set of management procedures providing technical standards and guidance in applying the code, forest management plans and action statements.

Timber Industry Action Plan

In addition to these legislative and regulatory instruments, the 2011 *Timber Industry Action Plan* (TIAP) is the Victorian Government's plan for assisting the timber industry to be productive, sustainable and meet its key challenges. These challenges include a lack of resource security, the drop in Japanese demand for woodchips, the impact of wildfires and an increased amount of forest in conservation reserves.

1.5 Roles and responsibilities

The Minister for Agriculture and Food Security is accountable for sustainable timber harvesting, and is the relevant minister overseeing VicForests. The Minister for Environment and Climate Change is responsible for sustainable forest management. The Treasurer is VicForests' sole shareholder.

This audit looked at the activities of three agencies.

VicForests

VicForests was established in 2003 and in 2004 became responsible for managing and selling native forest timber resources and delivering long-term returns to the state.

VicForests manages the commercial sale and supply of timber resources from Victorian state forests east of the Hume Highway. Through the Act, its Order in Council (2003) and the TIAP, VicForests is required to:

- estimate the available timber resources
- sell the harvested wood to timber mills through an open and competitive system
- manage the contracts with harvest and haulage operators to cut and deliver the timber to the mills
- manage forest regeneration.

Department of Environment and Primary Industries

DEPI has several responsibilities, which include:

- managing the forest estate—including forest management planning, biodiversity management, and monitoring and reporting on sustainable forest management
- regulating commercial forest uses—including timber harvesting across the state
- developing policy for forest industries
- managing the allocation and vesting of timber harvest areas to VicForests
- monitoring, along with the Department of Treasury and Finance (DTF), VicForests' corporate governance, compliance with legislative obligations and commercial functions
- managing the limited commercial timber operations in state forests in western Victoria
- managing public safety zones for timber harvesting operations across the state.

Department of Treasury and Finance

DTF undertakes functions on behalf of the Treasurer as the shareholder of VicForests. It monitors the financial performance of VicForests and oversees VicForests' corporate governance, compliance with financial legislative obligations and commercial functions.

Other key roles

The TIAP is predominantly delivered by DEPI, DTF and VicForests. DEPI is the lead agency responsible for delivering the plan. There are 20 other government agencies that also have some role in delivering the plan's actions.

The Native Forestry Taskforce—comprising of senior executives from DEPI, DTF, VicForests and the Chief Executive Officer of the Victorian Association of Forest Industries—is monitoring the implementation of the TIAP priorities and other native forestry election commitments, as well as any outstanding taskforce recommendations. The taskforce can elevate matters and report its findings to the Secretary of DEPI, the Minister for Agriculture and Food Security, and the Minister for Environment and Climate Change.

1.6 Audit objective and scope

The objective of the audit was to determine whether native forest timber resources on public land are being managed productively and sustainably.

The audit examined whether:

- timber is harvested at a level that does not adversely affect the long-term sustainability of the timber resources and the state's native forest environment
- the management of the timber resources optimises its long-term productive and commercial use and the social and economic well-being of regional communities
- agencies responsible for timber resource management work effectively together, have appropriate governance arrangements in place, and their actions and performance are open to public scrutiny as appropriate.

This audit focused on the management of native timber resources on public land. It examined the role of DTF as shareholder, and the following agencies with responsibilities for managing native timber resources:

- DEPI, formerly the departments of Primary Industries, and Sustainability and Environment
- VicForests.

The audit focused on timber harvesting activities in eastern Victoria. The audit did not examine timber plantations or firewood management.

1.7 Audit method and cost

The audit was conducted under section 15 of the *Audit Act 1994* and in accordance with the Australian Auditing and Assurance Standards.

Pursuant to section 20(3) of the *Audit Act 1994*, unless otherwise indicated, any persons named in this report are not the subject of adverse comment or opinion.

A forest science specialist was engaged during the audit to provide expert advice on the sustainable management of the timber resource.

The total cost was \$490 000.

1.8 Structure of the report

Part 2 examines the performance management arrangements, including measuring and reporting on progress as well as oversight and accountability.

Part 3 assesses the processes for determining where and at what level native forest timber harvesting can occur, and for managing harvesting levels and regeneration.

Part 4 examines arrangements for minimising the potential adverse impacts of harvesting on forest values, such as biodiversity.

Part 5 considers the commercial management of the native forest timber resources, VicForests' financial management and the socio-economic impacts of harvesting.

2 Is there adequate progress towards sustainability goals?

At a glance

Background

Agencies manage performance by setting goals and objectives to describe the desired future state for a sector and how they plan to achieve it, and setting measures and targets to monitor their progress and success in achieving the goals.

Conclusion

The Department of Environment and Primary Industries (DEPI) has an established approach for measuring the progress and achievements of sustainable state forest and timber resource management. The approach lacks an overall goal and progress measures and targets for state forest management activities and, until recently, DEPI has not had the data to show how state forests are faring over time. As a result, it has not sufficiently demonstrated progress in sustainable timber resource and state forest management. DEPI is working to address this.

Findings

- VicForests develops objectives, measures and targets aligned with DEPI's overall approach and uses these to report on its progress and achievements in managing the timber resource sustainably.
- DEPI does not have the regional objectives, measures and targets needed to show the progress and success of timber resource and state forest management.
- DEPI's forest reporting has been hampered by poor data but it has recently introduced comprehensive forest monitoring and improved other data collection methods.
- There is appropriate oversight and accountability for VicForests, but the lack of time lines and progress measures make effective oversight of the *Timber Industry Action Plan* difficult.

Recommendation

That the Department of Environment and Primary Industries strengthen its state forest and timber resource management and reporting, including setting regional objectives, progress measures and targets.

2.1 Introduction

Sustainable timber resource management, which is focused primarily on timber harvesting, contributes to the sustainable management of state forests.

The *Sustainability Charter for Victoria's State Forests 2006* (the sustainability charter) defines ecologically sustainable development as 'development that improves the total quality of life, both now and in the future, in a way that maintains the ecological processes on which life depends'.

Sustainability is not an absolute end point or outcome, and changes in priorities, knowledge and community perspectives will influence how sustainability goals are defined.

To demonstrate progress in both sustainable timber resource management and sustainable state forest management, agencies need to define these goals and the progress they want to achieve, and apply these over an appropriate time period. They also need to define how they will measure progress, collect data to demonstrate progress and report on it.

Responsible agencies also need to have clear roles and responsibilities and their performance should be accountable and open to public scrutiny.

2.2 Conclusion

The Department of Environment and Primary Industries (DEPI) has an established approach to measuring and reporting performance for sustainable timber resource and state forest management. Complementing this approach, VicForests has set objectives, measures and targets for its sustainable timber resource management. DEPI has set sustainability objectives for state forests but does not have an overall goal describing what it aims to achieve through delivering these objectives. Nor does it have the progress measures and targets needed to demonstrate how its activities contribute to sustainable state forest management.

Until recently, DEPI has not had the monitoring processes and data to show how forest health and the condition of other forest values are faring over time. It is now working to address these gaps.

2.3 Sustainability goals and objectives

Agencies need to set measurable goals that are underpinned by appropriate objectives, and together these should reflect the agency's understanding of what it aims to achieve and how it plans to achieve it.

Sustainable state forest and timber resource management are long-term endeavours. It is important for agencies to set meaningful progress measures linked to the achievement of outcomes and accompanied by realistic time frames.

Sustainable timber resource management

DEPI has set 10-year environmental and cultural goals for timber resource management through the *Code of Practice for Timber Production* (the Code). The *Timber Industry Action Plan* (TIAP) priorities provide social and economic sustainability goals relevant to timber resource management, although there is no time frame specified for achieving these.

The sustainability charter sets objectives relevant to both state forest and timber resource management. These encompass the social, environmental, economic and governance aspects of sustainability. VicForests' corporate objectives align with the sustainable charter objectives.

DEPI's state forest management plans set the direction and actions for sustainable management in the different forest regions across the state. The eastern Victorian plans all pre-date the introduction of the *Sustainable Forests (Timber) Act 2004* (the Act), the sustainability charter and the Code, and therefore do not have objectives that align with these. While the plans remain relevant, this makes it difficult to measure the extent to which VicForests' and DEPI's efforts in managing timber resources are contributing to sustainable state forest outcomes.

DEPI is developing a new, integrated approach to public land planning and has signalled that it will revise the forest management plans as part of this process, including setting regional objectives.

Sustainable state forest management

DEPI has not set an overarching goal for state forest management. Instead, the forest management plans each identify a regional goal for what the plans aim to achieve over a 10-year period. These are due for revision in the eastern Victorian regions.

DEPI should set an overarching goal for state forest management, to which the regional goals would contribute, as this would provide a clearer picture of forest management aims and how its current objectives contribute to this.

DEPI has set objectives for sustainable state forest management through the sustainability charter, although the charter does not make it clear what time frames apply to the achievement of the objectives. As with the timber resource component, the lack of regional objectives in forest management plans makes it difficult to assess how well agency efforts are contributing to sustainable state forest outcomes.

2.4 Measuring and reporting progress

DEPI and VicForests need to measure and report on what their management of the state forests and timber resources is achieving, both individually and collectively.

VicForests develops measures and targets against its corporate objectives and uses these to report on specific sustainable timber harvesting management achievements relevant to its business.

DEPI has developed criteria and indicators for sustainable forest management. However, until recently its measuring and monitoring of sustainable forest management was undermined by the lack of reliable data. This made it difficult to assess progress in achieving forest and timber management objectives and goals.

2.4.1 Sustainable timber resource management

Both DEPI and VicForests contribute to sustainable timber resource management. The Act requires VicForests to develop initiatives and targets to respond to and support the sustainability charter objectives and report on them. There is no similar obligation for DEPI.

VicForests

VicForests, through its corporate planning and sustainability reporting, transparently demonstrates how it has been, and plans to contribute to achieving relevant objectives. It has established initiatives and targets against the sustainability charter, although it does not have targets against every objective.

VicForests' public reporting includes its progress in achieving these targets and other targets it sets against its corporate objectives and sustainable forest management system performance. This reporting indicates it generally achieves good progress. However, its data is not always consistent between years or between different reports—for example, regeneration information does not reconcile between reports, and reporting does not consistently identify risks or how they have been managed.

The Department of Environment and Primary Industries

Under the Act, DEPI has established a set of criteria and indicators based on those accepted internationally for sustainable forest management. While these apply to the whole forest estate, including parks and reserves, they are also relevant to both state forest and timber resource management.

However, DEPI has not set any progress measures, targets or time lines for how it expects timber resource management activities to contribute to achieving these criteria and indicators. It has advised that its new, integrated approach to public land planning and revised forest management planning will include measures and targets in addition to objectives. It already has some of these in other regional plans—for example its water, biodiversity and cultural heritage plans—but will need to develop others.

Timber resource management should be open to public scrutiny. Public reporting on progress in implementing objectives is central to this. Progress reporting against achievement of the Code's goals for environmental and cultural management occurs via DEPI's audit program and the 10-yearly scientific review of the Code.

Measuring and reporting on the Timber Industry Action Plan

The TIAP was released in 2011 to help the industry address identified challenges to achieving native forest timber harvesting objectives. Its focus is on the economic, commercial and social aspects. The TIAP does not have any targets or progress measures describing anticipated impacts for the industry. DEPI advised that the TIAP's aim is to facilitate industry development, not to prescribe a specific direction for industry. The TIAP provides six-monthly reports to government, but there is no consolidated public reporting on progress in implementing the TIAP or on its achievements.

Sustainable state forest management

DEPI has not established progress measures, targets or time lines for how it expects state forest management activities to contribute to achieving the criteria and indicators for sustainable forest management. Its intended changes to forest management planning should address this gap.

The criteria span a range of forest environmental, social and economic values and require data from a range of sources. Some of this data comes from DEPI's own forest and related monitoring and research, covering elements such as forest health, biodiversity and water quality. The remainder, particularly social and economic data, comes from other government bodies and agencies—for example, data on tourism opportunities, Indigenous cultural values and the value of products from the forest, such as minerals, timber and honey.

Under the Act, DEPI must report against the criteria and indicators for sustainable forest management at least every five years. It does this through its *State of the Forests* reports.

Until recently, the data that DEPI collected to measure and report against these criteria and indicators was poor. The 2003 and 2008 *State of the Forests* reports were undermined by data gaps and the lack of trend information for many indicators. The 2008 report identified that none of the criteria carried enough reliable data from which to draw conclusions.

At that time some monitoring was occurring in state forests but little in forests on other public land such as parks and reserves. The department complemented this monitoring with data from its other monitoring and research programs—for example, on water quality and weed management—and from other agencies, but there were many gaps in what was measured and the time periods covered.

As a result, the reports could not show whether forest health was being maintained, enhanced or deteriorating.

In response, in 2010 DEPI introduced a new monitoring program to comprehensively measure characteristics across all forested land in Victoria. The program has been designed well and represents a significant investment.

While this will improve the reporting in its 2013 *State of the Forests* report, it will be several years before meaningful trend data for some data sets can be reported. For this report DEPI has also collected substantially more data from other agencies than it had previously, which should enable trends to be reported against many indicators. DEPI advised it is on track to publish the report by December 2013.

In addition to the *State of the Forests* reporting, agencies should report against their individual areas of responsibility. While DEPI reports on some management areas related to forests, such as weeds and pests and water quality, it does not report on its key state forest management responsibilities:

- It has not assessed or reported on how well the sustainability charter, action statements and forest management plans are being implemented, or what each is achieving.
- It does not assess and report on how it directly commits and contributes to achieving the sustainability charter objectives.
- It lacks regular review processes to ensure that significant risks to achieving its forest management objectives are being identified and addressed.

The integrated public land planning DEPI has commenced provides an opportunity to address these weaknesses in its state forest and timber resource performance management. This also provides an opportunity for DEPI to clarify and transparently articulate the links between the number of different forest planning documents and reporting requirements, and how these interact and contribute to its actions and outcomes.

2.5 Oversight and accountability

Appropriate oversight and clear accountability is needed to direct and monitor the actions and progress of the agencies.

Oversight of the sector is comprehensive and generally well delivered, principally through the following groups:

- **VicForests' board**—the board is making VicForests more accountable for its actions and has improved risk management, identified new business opportunities and is addressing obstacles to further development.
- **DEPI's and the Department of Treasury and Finance's additional oversight of VicForests**—this includes reviewing its corporate plan and financial performance, providing feedback to VicForests, and reviewing annual reports and board appointments.
- **A government committee monitoring TIAP progress**—the committee receives six-monthly reporting across all actions. There has been no record of its deliberations or directions for addressing areas of risk, such as those relating to indemnity and planning laws. DEPI has advised that the committee will now provide it with formal feedback and it will be asked to endorse the prioritisation of actions at risk.

- **The Native Forestry Taskforce**—comprised of representatives from DEPI, VicForests, the Department of Treasury and Finance and the Victorian Association of Forest Industries. It is monitoring the implementation of a selection of TIAP actions that it has identified as being high priority. However, its terms of reference do not clearly specify its oversight role as articulated by the sector agencies, and should be clarified.

Effective oversight of whether the TIAP is achieving reasonable progress and outcomes has been difficult because the plan does not identify time lines, priorities and anticipated outcomes. This makes it hard for government, the industry and the community to understand how well the plan is actually progressing, and whether the changes it is achieving in the sector are aligned with what the government wants to achieve. Individual agencies have their own plans for delivering their actions and are making progress in their own sectors.

DEPI has also recently introduced a project coordination board to oversee and integrate its forest management and related projects.

The Minister for Agriculture and Food Security and the Minister for Environment and Climate Change are jointly responsible for the success of the sustainability charter. However, there is no central oversight of whether the charter's objectives for state forests are being achieved. Nor is there any formal mechanism to oversee or report on it. This lack of oversight and reporting creates a gap for how timber resource management is monitored or managed as a component of sustainable state forest management, and how the effects of timber harvesting are taken into account in this management.

The *State of the Forests* reporting is not specific to state forests or harvesting impacts. Therefore it is not clear how this report is used to help oversee and adapt the native forest timber industry.

Accountability should improve further when DEPI finishes its current work under the TIAP to clarify the respective roles and responsibilities of the agencies involved in the native timber industry.

Recommendation

1. That the Department of Environment and Primary Industries strengthen its sustainable state forest and timber resource performance management by:
 - setting a clear goal for state forest management
 - establishing regional objectives, progress measures and targets for state forests that take into account both forest and timber resource management
 - reporting publicly on progress in achieving these.
-

3 Is timber being harvested at a sustainable rate?

At a glance

Background

For harvesting to be sustainable it needs to occur at a rate that does not exceed the rate at which the forest grows back, and in a way that allows the pre-existing forest conditions to re-establish.

Conclusion

The Department of Environment and Primary Industries' (DEPI) determination of where timber harvesting can sustainably occur has not been as thorough or responsive as needed to adapt to changes over time. VicForests continues to improve—and needs to strengthen further—its largely effective approach for estimating the sustainable harvest level, to increase confidence in the sustainability of its harvesting approach.

Findings

- DEPI has not adequately documented the assessments on which its decisions to amend the forest management zoning scheme are based.
- VicForests' approach to estimating the sustainable harvest level is accurate and reliable but it can further improve aspects—e.g. thinning and profitability estimates.
- VicForests is meeting DEPI's regeneration standards but it is not accurately reconciling its regenerated areas against its harvested areas.
- After 10 years, DEPI has still not successfully regenerated some areas it is responsible for, and its current plan only addresses around 2 per cent of the backlog.

Recommendations

- That DEPI:
 - review the forest management zoning and monitor its amendments process
 - use a range of expertise to oversee its audits of VicForests' sustainable harvest level planning
 - better manage its responsibilities for the regeneration of harvested forest.
- That VicForests address weaknesses in the way it schedules the sustainable harvest level, and better reconcile its regeneration with its harvesting.

3.1 Introduction

With good planning and management of timber harvesting, it should be possible to harvest at a rate that does not exceed the rate at which the forest grows back, and in a way that allows the pre-existing forest conditions to re-establish, as required by the legislation and regulations.

This audit examined the Department of Environment and Primary Industries' (DEPI) processes for determining where harvesting can occur and the accuracy and reliability of VicForests' sustainable harvest level estimate. It also assessed the appropriateness of the planning and monitoring of harvesting operations and the adequacy of forest regeneration.

3.2 Conclusion

Timber is being harvested within the current estimated sustainable harvesting rate and within the allowed areas. However, some of the processes for determining the area allowed and the sustainable rate can be improved to provide better assurance that harvesting will not adversely affect the long-term sustainability of the forest and timber resource.

DEPI has an established approach to determining which areas of state forest can sustainably support timber harvesting, which it has recently improved. However, in following this approach, DEPI has not been as thorough or responsive as needed to accommodate changes over time to forest values and forest management practices.

VicForests is harvesting less than its allocated area and continues to improve its largely effective approach for estimating the sustainable harvest level. While its approach is accurate and reliable, there are some aspects that, when addressed, will further improve the environmental, economic and social sustainability of the estimate.

VicForests is regenerating harvested areas adequately but is not accurately reconciling its successfully regenerated areas against the area harvested. DEPI has failed to successfully regenerate some areas it harvested before 2004 and its forward plan to deal with this is inadequate.

3.3 Identifying where harvesting can occur

Through national agreements and state legislation and planning, the Victorian Government has committed to meeting requirements for conserving native forests and protecting the natural and other values that forests provide, while at the same time allowing timber harvesting.

To meet these requirements, DEPI needs to determine which areas, or zones, of state forest should be protected for conservation purposes, and which should be available for harvesting.

DEPI has established a forest zoning management scheme to do this, but it has not adequately documented the assessments supporting its decisions. As a result it is not clear whether the zoning continues to appropriately meet conservation and timber harvesting needs. DEPI now has a process underway to review this for eastern Victoria, as required by the *Timber Industry Action Plan*.

3.3.1 Establishing harvesting zones

There is limited transparency of the assessments DEPI has undertaken in making decisions to amend the forest management zoning scheme, and it has not adequately reviewed the scheme over time. This means there is uncertainty about the extent to which the current harvesting areas are consistent with DEPI's harvesting and conservation objectives.

The forest management zoning scheme is the primary management and planning tool for activities conducted in state forests and should change over time in response to new information and conditions. It divides the forests into three categories, which:

- **protect identified values and preclude harvesting**—such as areas of forest with valued vegetation types, animal habitat or sites with cultural importance
- **allow productive and other uses**—with a focus on timber harvesting
- **allow harvesting only under certain conditions.**

Zoning changes can occur through minor zoning amendments or through a full review of the forest management plan or zoning scheme.

DEPI's process for making amendments includes criteria for assessing and approving amendment decisions. DEPI is following the process approval steps but its amendment documents do not consistently show what considerations were made or how the assessment criteria were met. This reduces the assurance about the quality of the amendment process, and whether the amendments have been fully consistent with conservation and harvesting objectives. In addition, DEPI has not:

- periodically assessed the appropriateness of the criteria, nor the cumulative impact of the amendments
- compiled information on the number of amendments.

The original zones were established between the mid-1990s and the early 2000s. Since then, the conservation reserves have expanded by as much as 150 000 hectares (ha) in eastern Victoria—reducing the total area of state forest. DEPI estimates there have been hundreds of small changes to the zones due to other factors, including new information on sites of particular value, improved connections between forests or new tracks.

DEPI's and VicForests' analyses indicate that these successive zoning changes have reduced the area and productivity of the forests available for harvesting across eastern Victoria. The regional forest agreements allowed for increases to conservation reserves, but required no net loss of the forest's timber production capacity in terms of volume, species and quality. However, the agreements do not define how this capacity will be measured, and the areas that are considered productive vary over time—for example, depending on the market demand for different species and qualities of wood.

Forest management plans, and therefore the forest zoning they establish, were to be reviewed after 10 years but this did not happen for the East Gippsland, Central Highlands and North East plans. Plan implementation was to be monitored and reported on annually, but this did not occur.

The only zoning scheme reviewed was for the East Gippsland forest management area in 2011. The process used is summarised in Figure 3A.

Figure 3A
Summary of the process used for the East Gippsland zoning review

The first step in the review was zoning the protection areas needed to meet the existing mandatory conservation requirements. As far as possible, DEPI identified forest areas where multiple values could be protected in the one area, e.g. an important cultural site requiring special protection zoning could also contain a specific vegetation type requiring conservation and could contain the habitat of a threatened species.

The second step created zones where harvesting was allowed, to meet timber production commitments.

The third step was to use zoning to meet other requirements, such as non-mandatory conservation requirements and stakeholder needs. This process included consultation with a range of stakeholders. However, there were few 'unzoned' areas left to meet non-mandatory conservation requirements.

DEPI's analysis of the review outcomes identified that, while the changes benefited conservation objectives and the area available for timber harvesting increased slightly, there was a net loss of timber productive capacity.

Source: Victorian Auditor-General's Office.

The review was guided by the criteria and zoning constraints identified in regional forest agreements, forest management plans and the forest management procedures.

However, it:

- did not link to a review of the forest management plan itself, even though the plan was 14 years old and the range of changes considered for the zoning suggest that the guidelines and actions in the plan did not still represent the best management approach
- did not lead to any amendment of the forest management plan either, to incorporate the changes resulting from the zoning
- included considerable new information and changes to zones, suggesting that the review should have occurred sooner than 14 years after the plan was first established.

The poor transparency of DEPI's zoning amendment assessments and its inadequate review of forest management plans and zoning over the past 15 years mean that the management of state forests has not been as adaptive or responsive as it needs to be, or was intended. The *Timber Industry Action Plan* called for all zoning in eastern Victoria to be reviewed, which DEPI has committed to doing by March 2015, starting with the Central Highlands zoning.

3.3.2 Allocating timber to VicForests

Under the *Sustainable Forests (Timber) Act 2004* (the Act), DEPI gives VicForests legal access to sell wood from the areas of state forest it has identified as available for harvesting, through an allocation order. The order identifies the total state forest area available for harvesting in eastern Victoria, based on the zones allowing harvesting. The allocation order provides a simple and transparent way of allocating the total area for harvesting, as an initial step in ensuring sustainability.

DEPI also considers regrowth times in determining gross area harvest limits for ash eucalypt and mixed species eucalypt forests—83 years for ash and 113 years for mixed species. This supports sustainability by constraining harvesting to match the replacement rate.



Ash forest

The *Allocation to VicForests Order 2004* gave VicForests access to a proportion of the total available area from 2004 to 2019 and set a harvest limit for each of the three, five-year terms over this period. Following the October 2013 amendment to the Act, DEPI introduced the *Allocation Order 2013*, which now allocates the timber to VicForests indefinitely, rather than restricting it to 15 years. The new order still includes a similar five-year harvest area limit, based on the same regrowth considerations used in the previous order. This brings Victoria into line with other states, which do not constrain timber resource use to such limited time frames.

3.4 Identifying the sustainable harvest level

The three main steps that VicForests takes in planning the amount of timber it can sustainably harvest and sell—the sustainable harvest level—are:

- identifying what is available and suitable for harvesting
- scheduling where and when it will harvest
- forecasting the volume of timber it will make available for sale.

Since 2010, VicForests has been responsible for doing this in a way that addresses the potentially conflicting criteria for sustainable timber resource management that the Act, VicForests' Order in Council, the *Sustainability Charter for Victoria's State forests*, the *Code of Practice for Timber Production* and the *Timber Industry Action Plan* identify. These include:

- achieving the best economic return for VicForests and the state
- maintaining or enhancing environmental values
- ensuring that forests are left in as good or better condition than they were in before harvesting
- maintaining, as far as possible, a viable industry and dependent communities
- adapting to the risks inherent in changing markets, industry scale and technology, and catastrophic fires.

This puts significant responsibility on VicForests to achieve the right balance across these criteria as this is a critical step in making sure timber harvesting is sustainable.

VicForests has developed an accurate and reliable approach to estimating the sustainable harvest rate, demonstrating its capability to manage the risks and the environmental, economic and social sustainability issues involved—in both the short and long term. Some weaknesses in addressing the range of criteria for sustainable timber resource management remain, particularly with VicForests' scheduling method. These will need to be addressed to further improve the estimate.

3.4.1 Sustainable harvest area and yield

VicForests' estimates of the forest area and volume—or yield—of sawlogs it could sustainably and commercially harvest are based on sound rationale and accurate and reliable methods and data, although the quality of the estimate will be improved by further changes that VicForests is planning.

The amount of the allocated forest that is available and suitable for harvesting is much smaller than the total area available identified in the allocation order because some areas:

- are protected by timber harvesting regulations
- are unsuitable for commercial harvesting—for example because they have trees that are not commercially desirable species, are too distant from markets or steepness makes harvesting too costly.

State forest is 44 per cent of all public forests. In 2013, 58 per cent of state forest—1.82 million ha—was available for timber harvesting and VicForests identified that around a half of this—815 000 ha—was suitable or potentially suitable for commercial harvest. From this area, only 3 300 ha was harvested in 2013, which is less than 0.2 per cent of state forest, and 0.05 per cent of the public forest area.

VicForests' calculation of the area and yield requires reliable and current information on the volume of timber present in forest areas—called the inventory—as well as maps of forested areas and growth information obtained by monitoring a sample of trees over time. VicForests assumed responsibility for this expensive, ongoing process from the former Department of Sustainability and Environment (DSE) in 2010. The current inventory is accurate and reliable, and VicForests has developed a sound strategy for collecting and improving the data and information, and for checking that it is reliable, representative and regularly updated. This will provide it with better information and improve its planning for sustainable harvesting.

VicForests' calculation of the area and yield uses time frames appropriate to the regrowth rates of harvested forest types and assesses risks to forest distribution, condition and regeneration, such as fire. It also reconciles previous estimates of sustainable yield against actual harvest and regrowth data and has plans in place to better predict the yield for each of the timber grades it sells.

3.4.2 Scheduling the harvest

VicForests needs to schedule its harvest over time to even out variations in the cost of harvesting—flatter forest or areas closer to the mills will be cheaper to harvest—and likely revenue—some areas will produce more or better quality wood than others. This provides it with even revenue, and the mills and harvest and haulage contractors with steady supply. It does this over a 20-year period.

VicForests has improved the scheduling since assuming the responsibility from DSE, based on a sound prioritisation of the improvements needed. As a result, it has developed an adequate scheduling approach but can further improve this to meet the criteria for timber resource management.

It selects areas for harvesting, known as coupes, that it considers will be profitable, i.e. where it expects revenue to exceed costs. VicForests includes overheads along with operational costs in this calculation. However, the true profitability of an individual coupe can only be assessed by comparing the expected revenue with the likely operational costs that will come from harvesting that one coupe, excluding fixed costs such as overheads.

Including fixed costs such as overheads removes some coupes from the schedule too early in the planning process and, as a consequence VicForests is underestimating how much it can profitably harvest. It will need to remove fixed costs from its scheduling in future to maximise profitability, and has advised that it will address this.

There are additional weaknesses in the process, which VicForests will need to address to optimise the environmental, social, commercial and economic sustainability of its planned harvest schedule:

- It is not modelling the impact of thinning—selectively removing trees to improve the growth of those remaining—on current harvest volumes and future growth rates, even though this provides an important potential source of wood and should improve the growth rates of the remaining trees.
- It needs to pursue better data on the quality and proportion of sawlogs that will become available after 2030.

VicForests is also not using the information it has to assess whether the forest condition, biodiversity and health would be in as good or better condition at the end of the 20-year period as it was before, if it follows its preferred harvest schedule. VicForests should include this step in its process, as part of optimising the sustainability of its schedule.

3.4.3 Forecasting the volume of timber available for sale

VicForests' 20-year forecasts of how much timber it will make available for sale are based on the sustainable harvest levels identified through the area, yield and scheduling processes, as well as the volume of timber it is currently contracted to provide.

Its 2013 forecast, for 2013 to 2033, is more accurate than its previous forecasts because VicForests has improved its method and data since its first estimate in 2010. For the first time the effects of the 2009 fires have been included, following thorough analysis. VicForests has identified that the forecast is likely to change again in 2016, following updates to its forest growth data and capability to map the areas suitable for harvesting.

The 2013 forecast predicts a continuation in the overall decline in availability since 2002. The reasons for this decline include increases in conservation reserves and fire impacts, as well as VicForests' improved understanding of which forest areas can be harvested and sold profitably and sustainably. This is shown in Figure 3B.

Figure 3B
History of 20-year sawlog availability forecasts for eastern Victoria

Year	Forecast source	Available high quality sawlog volume (m ³)		
		Central Highlands	East Gippsland	Total
2002	<i>Our Forests Our Future</i>	302 500	214 900	517 400
2008	Joint Sustainable Harvest Level Statement (DSE and VicForests)	324 000	173 000	497 000
2011	VicForests ^(a)	332 000/312 000	100 000/80 000	405 000
2012	VicForests ^(a)	393 000	102 000/82 000	443 000
2013	VicForests ^(a)	330 000/264 000	73 000	350 000

(a) The volume available is predicted to be higher at the start of the 20-year period but reduce to a lower level during the period. The total sums up the volumes based on the number of years it is predicted to be at each level.

Source: Victorian Auditor-General's Office based on information provided by VicForests.

DEPI plans to audit VicForests' approach to estimating the sustainable harvest level every five years from 2018. DEPI would benefit from using an appropriately broad range of expertise across the environmental, social, commercial and economic aspects inherent in estimating sustainable harvest levels.

3.5 Harvesting at the sustainable level

VicForests is harvesting at the sustainable level for ash forests and within the sustainable level for mixed species forests. The range of external audits it undergoes through DEPI's audit program and its independent certification to the Australian Forestry Standard, consistently find it is planning well and harvesting within the allocated area. It is further improving some of its activities, such as controls to make sure all coupe planning steps are followed.

3.5.1 Planning for harvesting

VicForests' harvest planning process produces two types of plans:

- **timber release plans**—that identify which coupes it may harvest over a five-year period
- **coupe plans**—that detail how it will conduct the harvest for an individual coupe.

VicForests develops robust and comprehensive timber release plans and individual coupe plans, as evidenced through independent audits and certification. The coupe plans comply with requirements, and VicForests is improving its planning for these to address recommendations for further improvement.

Selecting harvesting methods

VicForests has effective processes for selecting the harvesting method most appropriate to the characteristics of the forest type present in a coupe.

Its processes use a hierarchy of decision steps for each coupe, according to factors such as the types of vegetation present, risks to successfully regenerating the coupe and seed availability. The approach is designed to guide objective and consistent decision-making between coupes. There are four harvesting options:

- **Clear-fell harvesting**—fells all trees in a coupe except in areas that it is required to protect for biodiversity, water protection and other requirements, such as older trees with important habitat value. This is the main method used in ash forests.
- **Seed tree harvesting**—retains a proportion of mature trees on a site so that these can re-seed the site after harvesting. This is used predominantly for mixed species forests.
- **Selective or uneven-aged harvesting**—takes only mature trees, and leaves immature trees for harvesting at a future date.
- **Thinning**—removes some trees, either to increase the growth rate and health of the remaining trees or to access timber from trees before they die.



Clear-fell harvesting

Selective harvesting was trialled successfully in East Gippsland coastal forests, to maintain the uneven-aged and species-rich characteristics of these forests, in 2004–05 and again from 2010, but this did not lead to VicForests using it more widely. VicForests is now further assessing the value in using this method more widely, including the environmental, economic and social implications of this approach.

VicForests has used thinning less frequently in recent years, primarily because the coupes it has been harvesting have not been as suited to thinning, but also due to fire impacts. It also had little incentive to use thinning to improve forest productivity under the 15-year allocation order, as it had no certainty about when it could harvest any thinned areas and therefore realise the financial benefits of doing this. This disincentive has been removed with the introduction of an indefinite allocation order period.

3.5.2 Harvesting within the allocated area

The area and volume that VicForests harvests have declined since VicForests was established, and even prior to this. The reasons for this include increases in conservation reserves and bushfires and better estimation processes.

Between 2002 and 2009, DSE monitored and reported on harvesting levels. An Expert Independent Advisory Panel reviewed this process and reported to the Minister for the Environment on it, including recommendations for improving DSE's process.

The panel confirmed that for the first five-year period of the allocation order (August 2004 to July 2009) the cumulative area harvested was well within the total allocated limit. However, VicForests harvested 3 per cent—86 ha—more than the permissible amount for that five-year period across two forest types in 2009. VicForests received penalties from DSE for this.

VicForests has since improved its controls over where harvesting occurs, and monitors the harvest level quarterly. The 2012 amendments to the allocation order permitted VicForests to harvest up to an additional 2 per cent of the available area for 2009 to 2014 and the subsequent period, as long as any increase was offset by reductions in the final period.

VicForests' monitoring and DEPI's audits show the cumulative area VicForests harvested in the first two years of the second five-year period—August 2009 to July 2014—is within the allocated area.

DEPI's audits since 2010 have identified that harvested areas comply with the area limits identified in the timber release plans, including special management zone and water catchment limits. Its most recent audit, covering 1 July 2009 to 30 June 2011, shows that VicForests' activities did not result in any noncompliances, or require any recommendations.

3.6 Regenerating harvested areas

VicForests' regeneration activities are meeting DEPI's standards for successful regeneration. However, VicForests' sources of regeneration data are not all consistent, making it difficult to accurately reconcile whether it is regenerating at a similar rate to which it is harvesting. VicForests is now addressing this issue.

In the past 10 years, DEPI has successfully regenerated less than 10 per cent of the backlog of unsuccessfully regenerated areas it accumulated from harvesting prior to 2004. Its current regeneration plan only addresses around 2 per cent more of that backlog and it does not have sufficient seed store to meet all of its regeneration needs.

3.6.1 VicForests' regeneration of harvested areas

VicForests is responsible for regenerating harvested coupes so that they meet the minimum standards for successful regeneration set by the regulatory framework. The standards include maximum requirements for the size of areas within a coupe with no new growth on them, and a minimum requirement for the number of regrowing trees from each eucalypt species present on a coupe prior to harvesting.

VicForests prepares the coupes for regeneration using burning and follows this with aerial seeding. Between 18 and 30 months later it assesses the success of the regeneration, using aerial photography and field sampling to assess whether the standards are met.

Only those coupes that have met the standards are considered ready to hand back to DEPI as successfully regenerated forest. VicForests re-sows areas within coupes where initial regeneration has failed. Such areas occur in around 15 per cent of all coupes. Regeneration success can be influenced by site preparation and seeding factors but also factors such as drought and fire, which can be difficult for VicForests to respond to.

Although VicForests' surveys may indicate successful regeneration, this is only finalised with DEPI's approval and acceptance of the regenerated coupe. DEPI assesses thinned coupes before accepting them back, after which they are removed from the timber release plans until the remaining trees reach maturity.

DEPI uses an audit process to assess regeneration and thinning results before accepting the coupes back. The audits identify the number of coupes that DEPI should accept back. The number recommended for acceptance has increased over time and reached 100 per cent for all coupes audited in 2010–11 and 2011–12, although DEPI's formal acceptance has not yet been finalised for some of these.

Regenerated versus harvested areas

VicForests' 2012 sustainability report indicates its regeneration is keeping pace with its harvesting. DEPI allows an interval of around three years between harvest and DEPI accepting the coupes back. This is reasonable because:

- it takes time to prepare the coupe and to sow it
- seedlings need sufficient time to establish
- all coupes need to be surveyed
- DEPI's process for accepting coupes back as successfully regenerated takes time.

However, VicForests' sustainability report data on the cumulative regeneration versus the cumulative harvest does not reconcile with the annual report data. This obscures public accountability for this important step in the harvesting cycle. During this audit it embarked on a process to reconcile all regeneration data with harvest data since 2004, to improve the accuracy of its future public reporting.

DEPI's audit program also does not reconcile the cumulative regenerated area against the cumulative harvest area, even though this is critical to sustainability. The agencies need to address these issues to improve public accountability.

3.6.2 The Department of Environment and Primary Industries' regeneration backlog

When VicForests was established, DSE remained responsible for regenerating a backlog of coupes that it had harvested but not successfully regenerated. DEPI has not met its responsibilities to regenerate this area, which is inconsistent with the sustainability principles and regulatory requirements of the *Code of Practice for Timber Production*.

The potential backlog in harvestable forest areas accumulated prior to August 2004 totalled around 37 400 ha. DEPI has assessed that 28 400 ha needs either to be surveyed or to have past survey data confirmed, and that 5 500 to 7 000 ha of this will need to be regenerated—around the same area as VicForests' average annual harvest. The estimated cost to regenerate 7 000 ha is \$13.3 million. DEPI has engaged VicForests to regenerate around 150 ha or 2 per cent of the backlog in 2013–14, on a trial basis to inform potential options for viably regenerating remaining areas.

A smaller area of regeneration backlog exists in former harvesting areas that are now included in conservation reserves. These have not been mapped or surveyed.

DEPI received \$2.8 million in 2009 to survey backlog areas in East Gippsland and regenerate 850 ha of these by June 2012. The project cleared 630 ha for regeneration, which will soon be ready for its regeneration results to be assessed.

3.6.3 Seed stores for regeneration

VicForests and DEPI use seed to regenerate harvested areas or areas where the seedbed has been destroyed by bushfires.

VicForests inherited low stores of seed from DSE but has since built these up. It maintains enough seed in store to regenerate an average of four years' worth of harvested areas, which it reports on in its annual sustainability report. VicForests' external audit results indicate it has good processes for managing the seed store.

Now that Parks Victoria is also artificially regenerating some areas of alpine ash burnt and killed in major fires, DEPI will need enough seed to meet Parks Victoria's needs in addition to its own regeneration backlog needs. It also needs a sufficient reserve in the event of future major fires, drought or poor flowering seasons. DEPI is still assessing how much seed it needs but its current seed store will not be adequate, based on the size of the areas burnt or harvested. Lack of an adequate seed store increases the forests' vulnerability to further fires.

Recommendations

That the Department of Environment and Primary Industries:

2. improves the way it manages the forest management zoning scheme, by:
 - reviewing the forest management zoning for eastern Victoria by March 2015 as planned, documenting its approach and the trade-offs made between conservation needs and productive uses
 - better documenting the assessments underpinning amendment decisions and periodically reviewing how consistently it applies its zoning amendment process
3. engages appropriate experts to oversee its future five-yearly audits of VicForests' sustainable harvest level planning—with expertise spanning the environmental, social, economic and commercial dimensions of sustainability
4. improves the way it manages its responsibilities for regenerating forest, and monitors VicForests' regeneration compliance, by:
 - prioritising the regeneration of its backlog, to the accepted standards
 - collecting enough seed to meet regeneration backlog and bushfire recovery needs
 - reconciling VicForests' regeneration against harvested areas.

Recommendations – continued

That VicForests:

5. continues to improve its approach to scheduling the sustainable harvest level to address identified weaknesses
 6. clearly and accurately reconciles its successfully regenerated areas against the area harvested and report this publically.
-

4 Is harvesting being managed to protect forest values?

At a glance

Background

A variety of legislation, codes and guidelines informs the management and protection of Victoria's forest values. The Department of Environment and Primary Industries (DEPI) and VicForests both have responsibilities for implementing these. DEPI also regulates VicForests' compliance with the regulations for protecting the environment from potentially adverse harvesting impacts.

Conclusion

VicForests has been responsive in protecting forest values and addressing and correcting problems as they arise. DEPI has not effectively delivered all the actions it committed to for planning, delivering and reviewing its protection approach. Until recently DEPI did not have reliable information and data on how well forest values were being protected. DEPI is now seeking to address these issues.

Findings

- DEPI's effectiveness in protecting forest values is reduced because it has not:
 - responded quickly enough to protect some threatened species
 - sufficiently monitored the delivery of promised actions
 - gathered enough data to measure its actions
 - sufficiently updated or reviewed plans to maintain their currency.
- DEPI and VicForests do not always adequately document how they consider threats and consequences in making decisions about managing biodiversity values.
- VicForests is substantially complying with its regulatory obligations.

Recommendations

- That DEPI improves the way it plans, monitors and reviews its protections for forest values, and strengthens its auditing of VicForests' compliance.
- That DEPI and VicForests improve and better document the way they assess the threats and consequences of biodiversity management decisions in timber production areas and manage the risks and trade-offs involved.

4.1 Introduction

Native forest timber harvesting must be managed to maintain forest values. These values include:

- **environmental characteristics**—e.g. biodiversity, forest health, water resources
- **productive uses**—e.g. future timber production capacity, honey, firewood
- **social and economic values**—e.g. recreation, cultural sites, employment.

The Department of Environment and Primary Industries (DEPI) and VicForests need to protect these values through their processes for managing the forest and managing harvesting. VicForests must also comply with regulations designed to manage the environmental impacts of its harvesting operations.

The audit's assessment of this area included a focus on how actions to protect biodiversity values were being delivered, as biodiversity has the potential to be significantly impacted by harvesting activities.

4.2 Conclusion

DEPI's and VicForests' approaches to managing native forest timber harvesting are designed to protect forest values. VicForests is generally managing its responsibilities to protect forest values from potential timber harvesting impacts well, and audits of its operations have identified that it largely complies with regulatory and other requirements.

DEPI has not effectively delivered all the actions to protect forest values that it committed to. Until recently DEPI did not have reliable information and data on how well forest values were being protected. It is now seeking to address these issues.

Both agencies need to improve and better document the way they assess the threats and consequences associated with biodiversity management decisions in harvesting areas, and develop more transparent processes for managing the risks and trade-offs involved.

4.3 Agency approaches for protecting forest values

DEPI and VicForests should be delivering the plans and actions developed to manage harvesting sustainably, in line with the purposes and principles of the *Sustainable Forests (Timber) Act 2004* (the Act).

VicForests is largely doing this well and is limiting the potential adverse impacts of harvesting on forest values. DEPI has failed, in some cases, to develop the plans needed to protect forest values, and in many cases to track and review the progress made and the results achieved.

4.3.1 Planning, delivering and monitoring

DEPI's approach to managing forests is designed to protect forest values but its delivery has been incomplete and too slow to achieve this as intended. Its measurement of how forest values are maintained over time was poor, although the comprehensive monitoring program it introduced in 2010 has the potential to address this gap.

VicForests has good plans and monitoring for protecting forest values and external audits show it is generally managing this well.

The Department of Environment and Primary Industries

DEPI's efforts include implementing forest management plans, action statements, and the *Code of Practice for Timber Production* (the Code), and conducting research and monitoring programs related to environmental values. It has collated knowledge about forest values and uses this to better target its work. Responding to the 2009 fires, it introduced additional protections for some species and conducted high-quality research into the fires' biodiversity impacts.



Bushfire regrowth

DEPI also established the Victorian Forest Monitoring Program in 2010 to measure a comprehensive range of forest characteristics over a network of monitoring sites across all public forest areas. This included monitoring outside state forests for the first time. This will provide information that has been lacking, including on how well the reserves system protects forest values. Measured characteristics include biodiversity, soil and water conservation and regrowth after fires. The program is due to be operating fully by 2014.

Therefore while the number of species listed as threatened has increased over time, this increase is likely in part to reflect better knowledge about species, as well as changes in conservation status.

However, the effectiveness of DEPI's work is reduced because it has not:

- completed, renewed or in some cases developed action statements for some threatened species, reducing the likelihood that they are being adequately protected
- adequately monitored progress in delivering the actions in the *Sustainability Charter for Victoria's State forests* (sustainability charter), forest management plans or action statements
- had the data needed to measure what its actions are achieving across the various forest areas and forest values it aims to protect, although the new monitoring program and research should significantly improve this
- measured, reviewed or reported outcomes for these plans—e.g. none of the forest management plans in place for 10 years or more have received their 10-year review, and DEPI was unable to provide sufficient evidence to show it reviewed the sustainability charter in 2011 as required.

These issues have compromised DEPI's capacity to respond to change, apply the latest knowledge and apply the ecologically sustainable development principles of the *National Forest Policy Statement* 1992, the regional forest agreements, the Act, the Code and the sustainability charter.

DEPI's new draft policy for managing listed threatened fauna in timber harvesting areas should inform its review of action statements and help prioritise its actions. Its new approach to managing threatened species more broadly, not just in relation to timber harvesting, is significantly behind schedule and it is yet to produce its intended report and outcomes.

DEPI still needs to further analyse the impacts of harvesting on the species included in the research and determine any changed management approaches needed, and any interim measures, such as increasing pre-harvest surveys. It will need to revise its forest zoning, management plans and action statements in light of its new research results, and set clear processes and time lines for these.

DEPI has also started working towards better integrating its overall approach to public land management. This is aimed at better aligning, consolidating and coordinating its management of public land values and threats across forests, parks and coastal areas.

DEPI needs to strengthen its business systems to overcome its inconsistent and sometimes fragmented and slow progress in delivering, monitoring and reviewing its approach to protecting forest values. This is also needed to support DEPI to effectively deliver its new integrated public land management approach.

In 2011 the Native Forestry Taskforce and the *Timber Industry Action Plan* identified the need for a full review of the Act. This was completed in 2012, but the government's terms of reference limited the review primarily to improving certainty around timber supply and changing harvest licensing arrangements. The review focused on timber production outcomes and did not assess timber production alongside environmental sustainability considerations.

VicForests

VicForests aligns its activities with the relevant sustainability charter principles. It has triggers in its harvest planning processes to prompt consideration of biodiversity and other environmental and cultural values, in addition to regulatory requirements. It has been improving its knowledge of biodiversity values in coupes by employing biodiversity experts and introducing pre-harvest surveys, and monitoring and research projects. Its draft Forest Management Plan defines and addresses all forest areas with high conservation status—i.e. where there are environmental, cultural, social or economic values it considers have significant importance for conservation and face substantial threat of severe or irreversible damage.

To provide assurance about the sustainability of its operations, VicForests has had its plans independently certified as sustainable under the Australian Forestry Standard. This means the plans have been assessed against environmental, economic, social and cultural criteria that broadly align with the sustainability charter's objectives. Certification audits show VicForests' processes conform to the standards, and that its compliance has improved since VicForests was first certified in 2007.

VicForests is also applying for certification by the Forest Stewardship Council—another scheme that independently certifies the use of sustainable forest management practices. It is doing this to provide further assurance to stakeholders and expand its access to timber markets.

VicForests also uses its internal audit program to assess how well it is controlling its higher-risk processes. Audits of areas such as planning, harvesting, regeneration and road maintenance have identified some weaknesses in the way processes are followed or in the processes themselves. Repeat audits have found that controls improved over time, to adequate levels.

4.3.2 Managing threats to biodiversity values

DEPI and VicForests are required to manage threats to biodiversity values in state forests in ways that appropriately balance conservation and timber production needs. These threats include major disturbances, such as fire or harvesting.

Both agencies are managing risks through a suite of plans and processes to specifically address harvesting threats to biodiversity values—particularly to threatened species. However, neither agency is adequately documenting how it has assessed the threats and consequences of biodiversity management options, and considered the risks and trade-offs involved, in arriving at management decisions.

DEPI has built a range of protective measures into Victoria's forest management approach to help limit the impacts of activities—such as harvesting—on forest values, including:

- setting up the conservation parks and reserves system, to maximise the opportunity to protect values
- allowing harvesting in only a small proportion of the allocated forest area
- zoning some harvesting areas for further protection
- using regulations to mitigate the possible local impacts of harvesting.

However, until 2010 DEPI did not adequately monitor the reserves system to determine how well it protected values.

The Act, and other sustainable harvesting and forest management plans, require DEPI and VicForests to apply the precautionary principle in deciding how to manage specific threats. The Code states that 'when contemplating decisions that will affect the environment, the precautionary principle requires careful evaluation of management options to wherever practical avoid serious or irreversible damage to the environment; and to properly assess the risk-weighted consequences of various options. When dealing with threats of serious or irreversible environmental damage, lack of full scientific certainty should not be used as a reason for postponing measures to prevent environmental degradation'.

While DEPI's and VicForests' approaches to managing timber harvesting in state forests are designed to be precautionary, DEPI in particular does not have the processes and data to do this systematically and consistently:

- It does not have specific guidance on applying the precautionary principle.
- It has not established all plans necessary to manage the recovery of threatened species, or reviewed existing plans following successive, substantial fires.
- It has limited quality data, and so does not yet have a good understanding of which species are threatened, or how their recovery is tracking, although it has started some work to improve this.

DEPI does not always document how it considers the risk-weighted consequences of potential actions in arriving at its management decisions—for example zoning amendments—limiting transparency and accountability.

VicForests has a specific policy on how it interprets and applies the precautionary principle, which provides valuable guidance for staff in determining where or where not to harvest. However, VicForests also does not always document its assessment of risk-weighted consequences, related to threatened species, when determining its management approach for selected harvesting areas.

Actions taken to preserve and protect the habitat of Leadbeater's possums in the aftermath of the Black Saturday bushfires offer an example of the threatened species management undertaken by DEPI and VicForests in recent years, including harvesting considerations.

Figure 4A
Protecting Leadbeater's possums after the Black Saturday fires

Leadbeater's possum (*Gymnobelideus leadbeateri*) is a small omnivorous tree-dwelling marsupial mainly confined to ash forests in the Central Highlands of Victoria. The effects of fires and timber harvesting have caused it to be listed as a threatened species or as endangered since 1992.

The possum needs a large area of ash forest old enough to have developed tree hollows, for nesting habitat. It also needs access to young forests that contain sufficient feeding habitat. Maintaining enough of both is the major challenge for its long-term conservation. Sophisticated strategies are required to maintain enough evenly distributed nest-trees in selected areas of regrowth forest while allowing enough forest to regrow through to ecological maturity—greater than 250 years.

The *Leadbeater's Possum Action Statement* (2003) outlined measures to protect areas of optimum habitat for the possums. It also outlined strategies that address the development of habitat for the future, by achieving a long-term balance between the rate of habitat loss and the rate of habitat formation. The action statement is long out of date. It does not provide actual limits to harvesting in areas where Leadbeater's possum habitat and other values are present.

In the past four years, a variety of actions have been implemented:

- About 138 000 hectares has been reserved across the Central Highlands to protect the possum's prime habitat. VicForests undertakes surveys prior to harvesting to identify potential possum habitat.
- Since 2009, VicForests excluded 3 000 hectares of ash forest from harvesting.
- DEPI has supported other actions, including surveys, community grants for habitat restoration, predator control, colony monitoring at Lake Mountain, habitat restoration at Yellingbo Nature Conservation Reserve and habitat modelling and population viability analysis through its forest biodiversity project.

In June 2013, DEPI's Arthur Rylah Institute completed research into threatened species management that included the possum. This included assessing the capacity of the possum reserves to provide enough habitat to sustain a viable population under a range of scenarios, taking into account the impacts of the 2009 fires.

The research indicates that the current possum reserve system alone is insufficient to ensure the long-term conservation of the species, and that additional management actions will be necessary to reduce the extinction risk of the species.

In light of this, the government established the Leadbeater's Possum Advisory Group, with members from the Victorian Association of Forest Industries, Zoos Victoria, VicForests, Parks Victoria and DEPI. The group is due to deliver recommendations to government in late 2013 on measures to protect the possum, and how to support its recovery while maintaining a sustainable timber industry. Its work will also inform the revision of the existing action statement and the Commonwealth Recovery Plan.

Source: Victorian Auditor-General's Office.

4.4 Complying with harvesting regulations

DEPI is the environmental regulator for timber harvesting in Victoria. It regulates VicForests' operations in eastern Victoria. VicForests is required to comply with the rules in the Code, action statements and forest management plans, as well as with the independent certification requirements for how it manages its operations.

VicForests largely complies with environmental regulations and requirements. DEPI's approach to managing forest compliance is largely sound and it is further improving it.

4.4.1 Managing compliance

DEPI's compliance approach is centred on the forest audit program and investigating allegations of noncompliance. It is developing a forest compliance policy but does not have education or compliance monitoring strategies in place. While its approach is risk-based, it has not yet documented the rationale for selecting the high-risk regulatory obligations and issues.

DEPI has streamlined the regulatory requirements that were fragmented across the Code, management procedures, forest management plans and action statements. These have been condensed into a single set of management procedures—DEPI estimates 300 compared with the previous 2 200—and it is amending the Code to reflect these changes. It appears to be on track to release the amended Code for public consultation in early 2014.

DEPI is also implementing the recommendations of VAGO's 2012 audit, *Effectiveness of Compliance Activities: Departments of Primary Industries and Sustainability and Environment*, which identified deficiencies in the effectiveness of the former departments' activities in managing environmental compliance.

4.4.2 Monitoring compliance

DEPI monitors compliance through its forest audit program. Currently compliance audits are not mandatory, rather the Act gives the Minister for Environment and Climate Change discretion over whether to audit VicForests' compliance with timber harvesting regulations. As these audits are the main mechanism for providing assurance, there would be value in making them compulsory.

DEPI commenced its current format for auditing VicForests in 2010. It audits compliance with the allocation order, timber release plans and legislative and regulatory requirements across several aspects of VicForests' planning and operational activities.

DEPI's audits indicate that VicForests' planning, harvesting and regeneration processes and activities generally comply with regulatory requirements and have improved over time. The audits often detect a small number of noncompliances but these rarely translate into a high risk of environmental harm. DEPI now also follows up on compliance issues identified in previous audits, and these assessments indicate that VicForests is addressing the issues as recommended.

Proposed improvements

The priority areas for the focus of DEPI's forest audit program align with the high-risk regulatory obligations under the Act and the Code. DEPI is improving the way it targets the audit program at high-risk issues.

DEPI is now considering auditing the important area of VicForests' pre-harvest coupe planning to assess whether all environmental and cultural values are identified, and protective actions are described. Such an audit would be valuable in addressing conflicting interpretations of the regulations, before any infractions could occur.

DEPI is also considering changing its audit program to give it more flexibility to focus on specific environmental risks outside the regular audit cycle, such as selecting sites to examine key threatened species and communities—for example, the protection of Leadbeater’s possum habitat—in greater detail. The audit program would benefit from this.

4.4.3 Responding to noncompliance

DEPI has an online reporting system for allegations of harvesting breaches. It can be used by DEPI staff, stakeholders and the public. DEPI is required to assess all allegations and investigate those that contain sufficient detail to indicate the possibility of a breach.

For the 19 alleged breaches since 2010 where the requisite detail existed, DEPI’s investigations confirmed six breaches—five of these self-reported by VicForests. The sample of investigations reviewed for this audit showed DEPI followed the required process appropriately.

DEPI’s only enforcement options under the Act are to issue an official warning or to prosecute. Of these six breaches, two are still being investigated and DEPI has issued three warnings to VicForests. DEPI commenced one prosecution, although this matter was settled prior to it being heard, as was the previous prosecution process in 2009:

- In 2009 VicForests harvested 3 per cent, or 86 hectares, more than the allocated area limit for that five-year period, across two forest types. It made an agreed settlement to DEPI of \$225 000 and was required to improve its systems to prevent it from happening again.
- In 2010, VicForests allegedly harvested protected rainforest area in East Gippsland. Both VicForests and DEPI gave an undertaking to the court in order to settle the matter. For VicForests, this included a requirement to revegetate forest area additional to its own harvest area and have it independently audited. In September 2013 the court determined that VicForests and DEPI had met their respective undertakings and struck out the charges.

DEPI’s current regulatory reform process will include increasing its enforcement options, by developing a graduated enforcement approach, to give DEPI more flexibility in responding appropriately to the type of breach and the severity of the consequences.

Recommendations

That the Department of Environment and Primary Industries:

7. improves its delivery of forest-related plans and strategies through timely and comprehensive planning, monitoring and review, including:
 - completing, reviewing or renewing the action statements required under the *Flora and Fauna Guarantee Act 1988*
 - strengthening its business systems so that the delivery, monitoring, reporting and review of its commitments for managing forest values is consistent, thorough and timely
8. uses its recent biodiversity research findings to:
 - further analyse the impacts of harvesting on at-risk species to determine whether any changes to management approaches or interim measures are needed
 - inform its reviews of forest management zoning and action statements, and its development of the new integrated regional plans
9. strengthens its auditing of VicForests' compliance by documenting the rationale underpinning its identification of the high compliance risks associated with harvesting, and mandating the audits.

That the Department of Environment and Primary Industries and VicForests:

10. improves and better documents the assessment of threats and consequences that biodiversity management decisions in timber production areas may have on forest environmental, economic and social values, and more transparently manage risks and trade-offs involved.
-

5 Is harvesting profitable and supporting regional communities?

At a glance

Background

Native forest timber harvesting needs to maximise long-term economic returns to Victoria while also delivering sustainable outcomes for the environment, the industry and regional communities.

Conclusion

VicForests' native forest timber harvesting generates profits in most years, benefits regional communities and has delivered some economic returns to the state. The Department of Environment and Primary Industries (DEPI) and VicForests are responding adequately to current economic and environmental challenges.

Findings

- VicForests delivers profits in most years and is working to address its cash flow and debt issues.
- VicForests has demonstrated that it balances the need to operate profitably with the need to support industry and socio-economic sustainability.
- VicForests is strategically assessing potential risks and opportunities for the longer-term use of native forests to generate profits and socio-economic benefits, but DEPI is not doing this in a fully strategic way.
- DEPI and VicForests are adequately supporting socially and economically viable forest industries, in line with their legislative commitments.

Recommendation

That the Department of Environment and Primary Industries more strategically and holistically assess options for addressing issues and opportunities for the industry, based on current socio-economic research and data.

5.1 Introduction

VicForests is responsible for managing, harvesting and selling timber in a way that maximises the long-term economic returns to Victoria while also delivering efficient, sustainable and value-for-money services. The Department of Environment and Primary Industries (DEPI) and the Department of Treasury and Finance (DTF) have roles in overseeing VicForests' commercial performance and DEPI is also responsible for forest industry policy.

5.2 Conclusion

VicForests' native forest timber harvesting has generated profits in most years in the face of significant external pressures. It has generated socio-economic benefits for regional communities, although it has only delivered two dividends to the state since 2004. VicForests' commercial activities show it balances the need to generate profits with the need to support industry and socio-economic sustainability. It is in the process of addressing recurring cash flow issues and paying back what it borrowed to cover them.

DEPI and VicForests, working alongside other agencies such as Regional Development Victoria, are responding adequately to the current economic and environmental challenges facing the industry, particularly in East Gippsland. DEPI needs to improve its strategic monitoring and assessment of potential issues and opportunities for the industry.

5.3 Planning the commercial and profitable use of timber

DEPI and VicForests need to strategically monitor and assess the current and emerging successes and issues associated with native forest timber resource management, and options for addressing them. This is needed to sustainably generate long-term profits and socio-economic support for regional communities.

DEPI and VicForests are doing this, informed by research and evidence but DEPI's strategic, long-term assessment can be improved to include a more holistic and proactive assessment of issues and opportunities.

5.3.1 The Department of Environment and Primary Industries' planning

DEPI's plan for native forest timber resource management specifically, and for the timber industry more broadly, is embodied in the *Timber Industry Action Plan* (TIAP), released in 2011. The TIAP includes actions aimed specifically at supporting the commercial development of the industry, such as improving the sales system for native timber resources, and supporting the commercial development of new and emerging markets. The actions aim to provide increased security to the industry. However, it is not clear whether this is a short-, medium- or long-term plan because DEPI has set no time by which it expects the benefits of the plan to be realised.

DEPI's strategic considerations also include its assessment of VicForests' three-year corporate plan and its response to specific issues as they arise. It also periodically monitors socio-economic impacts in the timber industry and dependent communities.

DEPI is not engaged, though, in a holistic, broader consideration of a range of future options for addressing emerging issues and supporting the industry. Instead, it addresses individual issues in an ad hoc or reactive way.

5.3.2 VicForests' planning and risk management

The *State Owned Enterprises Act 1992* requires VicForests to produce a public statement of corporate intent. It does this for rolling three-year periods, with the current statement covering 2012–13 to 2014–15. The statement identifies its objectives, major initiatives and key performance indicators. It also describes the initiatives and targets VicForests has in place for meeting the objectives of the *Sustainability Charter for Victoria's State forests* (sustainability charter).

VicForests produces a confidential corporate and business plan for the same rolling three-year period that forms an agreement between VicForests, the relevant minister for VicForests, the Minister for Agriculture and Food Security, and its shareholder, the Treasurer. It includes VicForests' strategic objectives and initiatives, developed through a detailed analysis of VicForests' operating environment, risk management, financial information and planning assumptions.

VicForests is also planning beyond the immediate three years of the plan. Its recent strategic planning has considered how it can best position itself to be a sustainable timber resource manager in the medium term, given there will be less timber available over this period and the industry is experiencing a range of pressures, including:

- the diminished market for low quality wood such as pulpwood
- projected future fire impacts
- potential expansions to threatened species reserves
- campaigns by environmental groups supporting specific forest certification standards
- medium-term challenges to the profitability of harvesting in East Gippsland.

Through this planning, VicForests is considering alternative timber products and potential opportunities to diversify beyond harvested wood products in the future, for example through marketing the forests' carbon offset potential.

Risk management

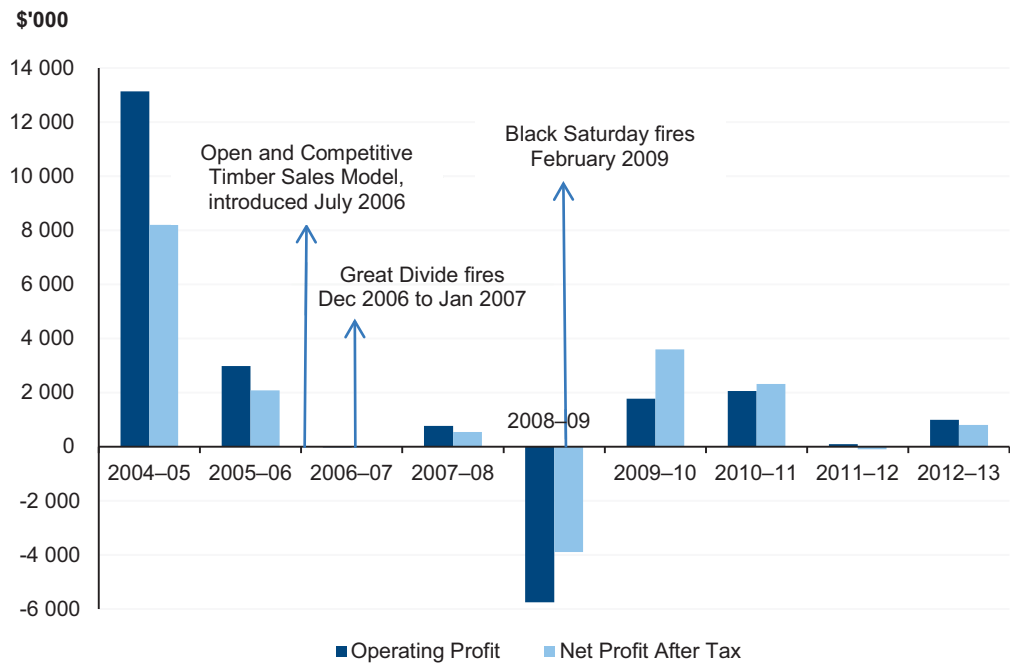
VicForests manages risks well. Its risk management strategies and plans are well documented and formally approved and monitored by its board. They accord with relevant better practice guidelines such as AS/NZS ISO 31000: 2009 *Risk management—Principles and guidelines*, and DTF's 2011 risk management framework. The Victorian Managed Insurance Authority's 2011 review of VicForests' risk management framework assessed it as effective.

5.4 VicForests' financial performance

Overall, VicForests' performance is commercially sound and it continues to address current challenges to its cash flows and long-term profitability.

Since it was established in 2004, VicForests has made \$13.5 million net profit after tax, returning a profit in all but three years. Its profitability has been affected in particular by the 2006–07 and 2009 fires, as shown in Figure 5A.

Figure 5A
VicForests profitability, 2004–05 to 2012–13



Source: Victorian Auditor-General's Office from VicForests' data.

VicForests' Order in Council was changed in 2010 to require it to undertake its commercial activities in a manner that will maximise the long-term economic returns to Victoria. The order does not define what period is considered long term. Under DTF's 2009 *Corporate planning and performance reporting requirements* for government business enterprises, DTF and VicForests agree on a dividend payment amount. This is based on a proportion of the profit earned, such as an agreed proportion of net profit after tax. However, the Treasurer also considers the performance of the enterprise and consults with its board and relevant minister in determining the actual dividend to be paid.

VicForests paid dividends totalling \$5.1 million in 2005–06 and 2006–07, and is proposing to pay \$250 000 in 2013–14.

Although the government reimburses VicForests for the additional costs incurred by its fire salvage efforts—totalling \$24.6 million between 2007 and 2011—the fires led to the loss of future timber sale value—estimated as being worth \$600 million in 2009. This occurred at a time when several sawlog mills closed or consolidated. Other factors placing pressure on VicForests' commercial performance include:

- the global financial crisis, which negatively affected domestic economic conditions—housing sector growth slowed and the high Australian dollar supported cheaper, imported building materials
- downturn in the Japanese pulp and paper industry
- more forest area being added to the reserve system, reducing the harvestable area
- legal expenses caused by a marked increase in litigation by environmental groups, for example, \$3.1 million in 2011–12.

VicForests increased its loan facility from the Treasury Corporation of Victoria in 2010 to cover cash flow problems resulting from issues such as the impact of the fires and some delays in receiving payments from mills. In June 2012 the loan was \$26.8 million, and this had reduced to \$18.9 million by June 2013. VicForests has been working to align its sales and contractor payment terms to reduce its need to borrow to cover shortfalls and has committed to repaying a further \$10 million over five years. While its current loan is \$18.9 million, it has approval to borrow up to \$25 million in 2013–14, if needed.

VicForests does not receive any government subsidies. The borrowings sourced from the Treasury Corporation of Victoria, to manage its cash flow requirements, are also interest bearing and will need to be repaid in the future.

VicForests' valuation methods appropriately meet required standards:

- VicForests and DEPI aligned their valuation methods in 2009–10, and both comply with the relevant accounting standard.
- VicForests includes the value of regenerated harvest areas, known as coupes, in its annual reports but is not required to differentiate coupes based on their stages of regeneration. The regenerated coupes remain its responsibility until DEPI has formally accepted them back.

5.5 Selling timber products

VicForests harvests sawlogs, which are sold to domestic mills. Only around one-third of a tree produces logs that have the quality and length required by Victoria’s sawmills. The remaining two-thirds is ‘residual’ timber, sold primarily as pulp log—to be processed for pulp and paper in Victoria or exported as woodchips—and a small amount is sold to commercial firewood producers. The residual timber that is not sold is left on the forest floor and burnt as part of the process to regenerate the coupes after harvest.

While sawlog sales drive VicForests’ commercial operations, VicForests and the industry could not operate financially without complementary pulp log sales.

VicForests has managed contracts to produce a commercial return, provide a fair process for the mills and appropriately support the industry, despite changes to product availability and the industry over time.

5.5.1 Timber products sold

The native forest timber industry relies on being able to sell both sawlog and pulp log. Without pulp log sales, VicForests would need to increase the price of sawlogs to uneconomic levels, to cover harvesting costs. Without sawlog sales, the low return from pulp log would also make harvesting uneconomic. Figure 5B shows the proportions of timber VicForests sold for different end uses in 2012–13.

Figure 5B
Timber products harvested and sold by VicForests in 2012–13 (m³)

Timber resource component	Harvested	Sold ^(a)	Not sold
Sawlog	495 409	503 464	0
Pulp log	760 917	750 633	0
Residue	268 342	18 342 ^(b)	250 000
Total	1 524 668	1 272 439	250 000

(a) Some sawlog and pulp log can be stored after harvest for later sale or to meet sales already made for future years, so the amount sold in a year can differ from the amount harvested.

(b) The only current market for residue is sale to commercial firewood contractors.

Source: Victorian Auditor-General’s Office from VicForests’ data.

VicForests estimated that in 2012–13, at least 250 000 cubic metres of residual wood—16 per cent of the total harvest—was left on the forest floor, and burnt in the regeneration burns. It is not sold primarily because there is currently no market for it, although some is also from forests that are so distant from the pulp mill and woodchip exporters that it makes transport costs prohibitive. Some is also needed to fuel the regeneration burn, although VicForests has not quantified the amount.

The need to find uses for this low-value wood was identified in the 2009 *Timber Industry Strategy* and again in the TIAP in 2011. These committed the government to supporting the industry to develop new and emerging markets for this wood, for example for bioenergy, biofuels, and the value of carbon stored in forests.

DEPI, VicForests and Regional Development Victoria have been implementing the TIAP action to support the use of native forest wood waste for energy production. Regional Development Victoria conducted a feasibility study in July 2013 into energy production from residual wood in East Gippsland, has completed a mapping exercise across regional Victoria of areas where biomass could be used for energy resources, and continues to promote this research and these investment opportunities. However, DEPI has been withdrawing from its bioenergy activities and ceased activities through the Victorian Bioenergy network in 2013.

VicForests sought proposals from the industry and business community for alternative uses of both current and potential additional supplies of residual wood in 2012. It received some ideas and proposals, but these will require significant capital investment that is not yet available. VicForests is currently seeking further proposals through its 2013 sales process.

Over 70 per cent of the timber sold is harvested from the Central Highlands region. Research by the industry, DEPI and VicForests indicates that the native timber industry in East Gippsland has become less economically viable in its current form over time:

- The amount of sawlogs available from East Gippsland has diminished over time—from close to 170 000 m³ in 2008 to around 70 000 m³ per year for the next 20 years from 2013—and VicForests is bearing the costs of transporting sawlogs from the Central Highlands to meet existing commitments.
- Markets for East Gippsland's pulp log and mill wood waste are facing a downturn, which could put further pressure on VicForests' revenue.
- It is unlikely all mills will be able to meet current challenges, such as adjusting to the changes in timber quality or responding to increased competition, for example from engineered wood products.

The industry is working with DEPI, VicForests, the Department of State Development and Business Innovation and the Shire of East Gippsland to assess options for wood products and industry investment which would support a transition to a model more suited to a reduced wood supply.

5.5.2 Timber contracts

VicForests only sells a maximum of 90 per cent of the estimated volume available at the start of a sales period, and offers a declining volume for sale over time. This gives it a safety margin if non-catastrophic fires or other circumstances reduce the amount of timber it can supply. In the event of catastrophic fires, under the *Sustainable Forests (Timber) Act 2004*, the Minister for Agriculture and Food Security may require the allocation order to be reviewed. VicForests could enforce contract provisions exempting it from fulfilling its contractual obligations following events beyond its control.

VicForests' 2010 review of its process for estimating the timber resource available identified that it could introduce a more rigorous process for determining what percentage of the estimated volume available it should sell, based on fire history and other risks, but VicForests has not yet done this.

Even though the volume of wood contracted for sale from eastern Victoria decreased by over 50 per cent between 2008 and 2013, the value of timber sales contracts increased by over 15 per cent for the same period of time.

In 2013 VicForests had:

- 89 active sales contracts, spread across 30 mills
- 96 active harvest and haulage contracts, across 71 separate contractors.

As VicForests has only had certainty over the volume it can harvest for 15-year periods, in practice its longest contract is 10 years with the average length being closer to five years. The contractual processes provide a commercial return to VicForests and the auction model has provided a fair process for mills and contractors, through the appropriate application of market-based systems and commercial contract terms.

The sample of contracts reviewed for this audit showed that the contractual arrangements allow VicForests to manage risks appropriately. They include financial penalties or contract termination clauses for mills that do not accept the agreed supply or do not pay, or for contractors not meeting log quality or environmental and health and safety standards. VicForests also assesses mill performance in meeting agreed supply volumes and payment arrangements, and uses this information and other risk analysis to determine whether or not to renew contracts.

Despite these arrangements, there are also examples where VicForests has carried the risk when supply has changed or its mill customers have collapsed. These situations arose where VicForests was seeking to preserve broader socio-economic benefits to the industry and regional communities.

The future for long-term sales contracts

The new *Allocation Order 2013* allows VicForests to offer contracts for up to 20 years, or longer with ministerial approval. There are a number of risks associated with the use of longer contracts that VicForests and the mills need to consider, including:

- the sustainable harvest level continues to be revised downwards over time
- the potential for fires is increasing
- increases to conservation reserves are possible
- it can be difficult to determine what a fair price will be over longer time frames.

To mitigate the potential impacts of these factors, the government has committed to indemnifying VicForests against changes to native forest policy. VicForests has also strengthened its contract provisions around the impact of bushfires.

VicForests has indicated that any long-term contracts will need careful analysis of risk allocation between itself and the mill customer.

The longest timber contract is the government's 34-year legislated agreement with Australian Paper. This agreement was established as the *Forests (Wood Pulp Agreement) Act 1996*. Since then there have been significant changes to timber resource availability—more conservation reserves, several fires—and to the industry—changes in plantation pulpwood predictions, forest certification issues. As these have resulted in additional costs to government, DEPI will need to consider costs against the socio-economic benefits that Australian Paper brings to Gippsland communities.

Indemnifying VicForests' contractual obligations

The TIAP commits to indemnifying VicForests against any claims against it for failing to meet contracts as a result of changes in government policy on native forest timber management. However DTF, on behalf of the Treasurer, is considering indemnifying significant contracts on a case-by-case basis instead—this would lower the amount the government would potentially be liable for. DTF, DEPI and VicForests are determining how such an approach could be applied.

Improved sales process

Following detailed analysis and consultation with mill customers, VicForests is phasing out the auction system it has used for selling wood to mills, partly because the auction system is not suited to the current market conditions where there is reduced competition for some timber products.

The 2013 timber sales process instead involves a request-for-proposal process for medium- and long-term sales, and includes offering mills a mix of options for the point of sale of timber—e.g. whether payment includes delivery to the mill door. VicForests' new agreements include additional provisions for managing changes to the contract arrangements, such as enabling VicForests to adjust the timber intake if the market collapses, and improved provision for managing events beyond its control.

5.6 Socio-economic benefits for regional communities

The native forest timber industry is important to many regional communities, providing direct and indirect employment. It also generates opportunities for business and service providers, as well as demand for social infrastructure such as schools and medical facilities.

DEPI and VicForests are adequately supporting socially and economically viable forest industries, in line with their commitments in the Act and the sustainability charter.

DEPI has demonstrated its support primarily through its involvement in delivering TIAP actions designed to increase certainty for industry investment and overcome current problems that the industry is facing. It has also provided support in response to specific issues, for example working with VicForests to identify and provide additional work for harvest and haulage contractors affected by the current reduction in harvest levels in East Gippsland.

To measure change over time, in 2009 DEPI established a baseline of socio-economic research on the industry, which it updated in 2012 and plans to continue updating subject to funding. This research shows a decline in industry expenditure since 2009 along with a fall in sector employment and in the number of businesses operating. The research also shows that forest industry workers are more vulnerable to change than the average member of the workforce. A relatively high proportion of households rely solely, or largely, on the sale of forest and wood products for their income.

DEPI should continue to monitor industry changes as well as progress in achieving the TIAP goal of a productive, competitive and sustainable industry.

VicForests' activities directly benefit regional and state economies through:

- around \$1 billion in direct timber sales to the market between 2004 and 2013
- directly employing 114 staff in 2013.

It also paid over \$600 million to harvest and haulage contractors based in regional areas over the same period. In 2013 the harvest and haulage sector directly employed 405 people.

VicForests has demonstrated a commitment to socio-economic sustainability through its flexible arrangements with mill customers and harvest and haulage contractors. It also allowed mills struggling after the fires to enter into repayment plans.

VicForests delivers other socio-economic benefits that are harder to put a value to. These include:

- timber salvage activities after fires that contribute to making the forest safe for the public and firefighters by removing dead trees from roads and roadsides
- use of VicForests' access tracks by the public and by fire agencies for fire suppression and planned burning work
- the value of its employees and contractors as part of Victoria's fire suppression forces
- supporting 36 organisations in 2011–12 through its regional Community Support Program, providing grants or in-kind donations.

VicForests has many controls in place to limit the impact of its operations on the community, for example to make sure harvested coupes do not spoil visual amenity in parks, and logging trucks do not disturb local traffic flow. DEPI's audits and VicForests' independent certification audits have shown that these controls are working well to limit potential impacts.

The Treasurer and the Minister for Agriculture and Food Security may also direct VicForests to perform certain functions that are in the public interest but to date this has not occurred.

Recommendation

11. That the Department of Environment and Primary Industries more strategically and holistically assess options for addressing issues and opportunities for the industry, and continue to update this planning based on socio-economic information relevant to the native forest timber industry sector.
-

Appendix A.

Audit Act 1994 section 16— submissions and comments

Introduction

In accordance with section 16(3) of the *Audit Act 1994*, a copy of this report was provided to the Department of Environment and Primary Industries, the Department of Treasury and Finance and VicForests.

The submissions and comments provided are not subject to audit nor the evidentiary standards required to reach an audit conclusion. Responsibility for the accuracy, fairness and balance of those comments rests solely with the agency head.

Responses were received as follows:

Department of Environment and Primary Industries	54
Department of Treasury and Finance.....	56
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RESPONSE provided by the Secretary, Department of Environment and Primary Industries



Department of Environment and Primary Industries

Ref: SEC010034

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Dear Mr Doyle

John

PROPOSED PERFORMANCE AUDIT REPORT ON MANAGING VICTORIA'S NATIVE FOREST TIMBER RESOURCES

Thank you for the opportunity to respond to the proposed performance audit report for *Managing Victoria's Native Forest Timber Resources*.

The report identifies issues, challenges and successes in the management of Victoria's native forest timber resources. DEPI welcomes the report's findings and accepts the recommendations.

DEPI was established earlier this year to provide a better and more efficient management approach to the state's public and private land. In respect to timber resource management, DEPI will focus on protecting our environment, providing greater resource certainty for industry and secure long term access to native timber resource supplies.

A general theme throughout the report and its recommendations is the extent to which economic, environmental and social goals are considered and balanced in the state's strategic approach to managing native forest timber resources. With these three elements now under the one department, I am confident that DEPI is well placed to address the report's findings and recommendations. DEPI will also work with VicForests to address issues in the report relevant to both agencies.

More specifically, I note that strategic management of the state's native forest timber resources is guided by the Victorian Government's Timber Industry Action Plan (TIAP). The TIAP clearly specifies the government's objectives, goals and targets for Victoria's timber industry. The TIAP's priorities and actions are focused on establishing appropriate policy settings to enable the market to operate as freely and efficiently as possible. Significant progress has been made in this regard, particularly through reviewing the Sustainable Forests

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RESPONSE provided by the Secretary, Department of Environment and Primary Industries – continued

(Timber) Act 2004 and the resultant legislative changes that came into effect on 1 October 2013.

In regards to backlog regeneration, while DEPI acknowledges that its regeneration program is behind schedule, since 2009 DEPI has been working closely with VicForests to address the regeneration backlog. During this period, DEPI has commissioned VicForests to undertake regeneration of approximately 1000 hectares at a cost of around \$3 million.

In the last three years DEPI has made significant improvements to the way it collects forest monitoring data. This new Victorian Forest Monitoring Program is considered best practice and combined with data collected from other agencies will inform a comprehensive 2013 State of the Forests Report.

Thank you for the opportunity to comment on the report.

Yours sincerely



Adam Fennessy
Secretary

RESPONSE provided by the Acting Secretary, Department of Treasury and Finance



Department of Treasury and Finance

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Mr John Doyle
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05 DEC 2013

Dear Mr Doyle *John*

VAGO AUDIT – MANAGING VICTORIA'S NATIVE FOREST TIMBER RESOURCES

Thank you for the opportunity to respond to the proposed report *Managing Victoria's Native Forest Timber Resources*.

The Department of Treasury and Finance (DTF) believes the findings and recommendations provide an opportunity for the Victorian Government to continue to improve the sustainable management of the State's timber resources.

DTF appreciates the comments in the report acknowledging that DTF effectively supports the Treasurer as shareholder of VicForests.

Thank you to the VAGO team for its consultative approach on this audit.

Yours sincerely

David Webster
Acting Secretary



RESPONSE provided by the Chairman, VicForests

Our Ref:
Your Ref:

6 December 2013

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Dear Dr Frost

Response to Performance Audit Report *Managing Victoria's Native Forests Timber Resources*

I am pleased to have the opportunity to provide a response to your Performance Audit Report *Managing Victoria's Native Forests Timber Resources*. I am also pleased that VicForests has been found to be discharging its responsibilities in an efficient and effective manner.

I have considered and support the three recommendations contained in the audit report that relate to VicForests. I would like to offer the following specific comments to each of these.

Recommendation 5: *VicForests should continue to improve its approach to scheduling the sustainable harvest level to address identified weaknesses.*

I am reassured that you report VicForests approach to estimating the sustainable harvest level is accurate and reliable, that VicForests is harvesting at or within the estimated sustainable harvest level and that we are harvesting less than the area allocated to us by DEPI. I am also pleased that you have acknowledged our plan for continued improvement in the way this is managed.

VicForests assumed responsibility for estimating long term sustainable harvest levels in 2010 from the then Department of Sustainability and Environment. Over the past three years our organisation has invested significant resources and energy to improve the resource description and sustainable harvest projections, particularly following the 2009 Black Saturday bushfires which had a significant impact. We have also improved transparency through making our annual Resource Outlook publically available each year.

VicForests will review our plan and continue to implement measures to strengthen our long term timber resource projections and in particular the links between our Resource Outlook and the scheduling of timber harvesting across the landscapes.



RESPONSE provided by the Chairman, VicForests – continued

2



Recommendation 6: *VicForests should clearly and accurately reconcile its successfully regenerated areas against the area harvested and report this publicly.*

VicForests agrees that accurate reconciliation and public reporting of forest regeneration following timber harvesting is important. Further to this, I believe it is a critical indicator to demonstrate the fundamental sustainability of our operations.

While we attempt to do this in a transparent way through our annual Sustainability Report, which we make publicly available, I acknowledge that the audit has highlighted some issues in accurately reconciling these figures.

As you have noted in the report we have already commenced implementation of a project to provide an accurate reconciliation of the area of timber harvesting and forest regeneration that has occurred since we began operations in August 2004. We have identified some inconsistencies in the way data has been collected and collated in the past, particularly from early in our existence. We believe that on the whole these inconsistencies are minor and will not meaningfully change the fact that we are on track with our successful forest regeneration program. We plan to provide a public report on this work during the second half of 2014.

Recommendation 10: *That the Department of Environment and Primary Industries and VicForests should improve and better document the assessment of threats and consequences that biodiversity management decisions in timber production areas may have on forest environmental, economic and social values, and more transparently manage the risks and trade-offs involved.*

As noted in the report VicForests has adopted a precautionary approach to the way we conduct our operations and we are meeting our responsibilities to limit the potentially adverse impacts of harvesting on forest values.

VicForests will examine this recommendation fully and identify ways to improve consideration and documentation of threats and consequences of our decisions and how these may affect forest values. As part of this work, during 2013/14 we will further enhance our procedures, including trigger levels for assessment, to improve processes around risk weighted decision making and documentation of such decisions.

VicForests is committed to the continued improvement of the way we manage our operations and the work identified above will add substantial value to this goal.

Progress on the work outlined above will also be monitored by the Board of VicForests.

Yours sincerely

A handwritten signature in black ink, appearing to read "Gordon Davis".

Gordon Davis
Chairman

Auditor-General's reports

Reports tabled during 2013–14

Report title	Date tabled
Operating Water Infrastructure Using Public Private Partnerships (2013–14:1)	August 2013
Developing Transport Infrastructure and Services for Population Growth Areas (2013–14:2)	August 2013
Asset Confiscation Scheme (2013–14:3)	September 2013
Managing Telecommunications Usage and Expenditure (2013–14:4)	September 2013
Performance Reporting Systems in Education (2013–14:5)	September 2013
Prevention and Management of Drugs in Prisons (2013–14:6)	October 2013
Implementation of the Strengthening Community Organisations Action Plan (2013–14:7)	October 2013
Clinical ICT Systems in the Victorian Public Health Sector (2013–14:8)	October 2013
Implementation of the Government Risk Management Framework (2013–14:9)	October 2013
Auditor-General's Report on the Annual Financial Report of the State of Victoria, 2012–13 (2013–14:10)	November 2013
Portfolio Departments and Associated Entities: Results of the 2012–13 Audits (2013–14:11)	November 2013
WoVG Information Security Management Framework (2013–14:12)	November 2013
Public Hospitals: Results of the 2012–13 Audits (2013–14:13)	November 2013
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