

## Status reports for Council's strategic direction

### Council's Forestry

#### 1. Executive summary

- 1.1. The purpose of this report is to brief Council on Council's Forestry Investments.
- 1.2. Council's total area of forestry is 73.2ha of commercial Radiata Pine in a series of non-contiguous stand throughout the district. A further 5.6ha of Radiata Pine and Douglas Fir is deemed to be uneconomic.

#### 2. Context

##### 2.1 Background

Council owns 13 stands of forestry of varying sizes. Apart from the Hihitahi stand of 24.1 ha (that is located adjacent to State Highway One in the Ruapehu District) and Bulls (which is part of the Bulls Domain) all other stands are located on miscellaneous pieces of land that were former rubbish dumps or gravel pits, areas adjacent to reservoirs etc.

Forestry was established on these pieces of land to suppress weed infestation as much as any other reason. This is also one of the reasons for re-establishing the forestry in Bulls Domain.

Historically Forestry has been treated as an investment activity. It must be stressed that forestry is a high risk investment as it is subject to four main risks;

- The international market price for logs
- The exchange rate
- The weather causing damage (windthrow or snow)
- Disease (as was the case with Bulls Domain)

##### 2.2 The following table sets out Council's forestry holdings by stand.

Stand	Year Established	Area Ha	Value 2007	Value 2006
Reservoir A Stand A	1981	16.20	271,344.88	298,675
Reservoir A Stand B	1986	6.2	83,132.04	83,837
Reservoir B/C Stand A	1978	1.3	23875.80	24,327
Reservoir B/C Stand E	1984	1.5	18,858.77	19,272

Reservoir B/C Stand F	1978	6.4	126,598.40	127,891
Reservoir B/C Stand G	1985	2.2	27,171.63	27,468
Rata	1975	5.2	95,752.80	95,243
Mangaweka	1982	2.2	32,926.69	33,396
Hihitahi	1983	24.1	164,447.00	151,438
Toe Toe Road	1976	2.1	37,487.10	38,235
Huntermville Tip	1986	0.2	0.00	1,000
Irirangi A	1995	2.5	0.00	2,000
Irirangi B	1995	2.0	0.00	2,000
Irirangi C	1995	0.9	0.00	8,000
Bulls Domain	2005	5.8	580.87	6,264
<b>Totals</b>		<b>78.8</b>	<b>882,165.98</b>	<b>919,046</b>

### 2.3 LTCCP

The following has been extracted from the 2006/16 LTCCP

#### **“Forestry**

*The Council owns 78.8 ha of forestry in 15 stands with a total value as at 30 June 2005 of \$972,100. These holdings are (for the most part) situated on land that is:*

- *Used as part of other activities such as water catchment areas around reservoirs, closed landfills, former gravel extraction pits, reserves or for road stabilisation;*
- *Was used for other activities that have ceased but the Council is unable to dispose of the land because of some legal impediment;*
- *Some blocks are purely for investment purposes.*

*All forestry assets are held as long-term investments on the basis of their net annual positive discounted cashflows, factoring in projected market prices, annual maintenance, and felling costs.*

*All forestry assets are held to maturity and likely to be harvested in the latter years of this 10-year Plan. Council is aware that this will require significant upgrade of some roads to enable the harvest to occur. The Council reviews the use of the land, thereafter, for commercial or strategic purposes.*

*Proceeds from the disposition of forestry investments form part of the Council’s general funds. Any gains or losses on sale are included as general revenue or expenditure and offset any general rate requirement.*

*The activity is managed by local Forestry Consultants on behalf of the Council. These Consultants produce a Management Plan for the silviculture and harvesting of the forestry holdings.*

### 2.4 Funding Policy relating to forestry is summarised below.

*This activity is provided as part of Council’s overall investment management strategy, Council seeks to maximise return on its investment whilst minimising risk. Benefit accrues from this activity as it represents a source of future*

*capital. Like all parts of Council's investment portfolio the benefits accrue to the ratepayers of the District generally.*

*As forestry proceeds occur up to 29 years after the establishment costs there is potentially a mismatch between costs and benefits.*

*While the majority of the benefit of the expenditure on this activity will fall in the immediate year, there will be benefits that will accrue to future years. This is in relation to the forestry assets that will continue to benefit the District for the period of the life of the forests.*

*However, as the forestry investment is now being harvested it is appropriate that the re-establishment costs are taken out of forestry proceeds before the net proceeds are distributed. This avoids the mismatch of costs and benefits for future generations.*

### **Funding Mechanism**

*This activity subsidises the General Rate 100%.*

## **3. Issues**

- 3.1 Forestry has been a poor performing investment over the last few years due mainly to the high value of the New Zealand dollar. Forestry investments are inherently high risk. As Council is not really a serious player in forestry investments, it is recommended that Council review the ownership of each piece of land as the forests are clear felled with the view of selling them unless a clear strategic reason is found for retaining them (i.e. the Reservoir B/C holdings and, possibly, the Bulls Domain).
- 3.2 Central government have announced a carbon trading scheme which involves forestry. Forestry established prior to 1990 was to be penalised if the forest was not re-established. However, Council is exempt as none of our forestry stands are greater than the 50ha threshold required for the carbon trading scheme to be applied under the proposed legislation.
- 3.3 For forestry issues relating to specific blocks, refer to the report from John Turkington (the forestry consultant) attached. Some other issues are detailed below. Most of our forestry is ready for harvest or close to being ready. It will only be harvested when the price is favourable or if (like Rata and Bulls) there is an external cause requiring the forestry to be felled in order to retain some value.
- 3.4 Former Stand B,C and D at Marton Reservoir.

These stands were affected by windthrow in the 2004 storm event and destroyed the fences with the adjoining neighbours. These stands were very narrow and susceptible to wind damage. It was decided to clear fell these stands and not replant. The neighbouring farmers offered to set up a trust to establish native bush around the reservoir in an attempt to help aid the water quality in the reservoir. Natives were

obtained and planted this last season at no cost to Council. The trust is yet to be set up.

- 3.5 Hihitahi and Irirangi stands are located in the Ruapehu District. This is because they were established when this area was part of the former Rangitikei County. The agreement between the District and Ruapehu has not been found. Clarification of the ownership status of the land needs to be established prior to any future discussion with Ruapehu District. These forests also suffer from snow damage from time to time.
- 3.6 The stand at Rata has been badly affected by windthrow and will need to be clear felled to avoid any further damage. This stand is surrounded by Jim Bull's dairy farm, who has previously expressed an interest in buying the land. Officer advice is that this should occur if at all possible. The legal access to this stand was cut following Mr Bull's relocation of his internal farm track for his dairy cows. This was done without consultation with Council. The legal access track has to be rebuilt at Mr Bull's cost to enable our contractors to gain entry to the stand so it can be logged.
- 3.7 The stand at Mangaweka is close to the water treatment plant. Some interest was shown in using it for a paint ball tourist operation. This would need to be carefully advanced to avoid any liability if trees were blown over or fell over assets or contestants.
- 3.8 The Reservoir A forestry stands are adjacent to a redundant reservoir. Such land is surplus to requirements and should be sold. The non-infrastructure assets review covered these forestry areas and recommended sale of the land in most cases (apart from Reservoir B/C and Bulls Domain) once the trees were felled. This recommendation needs to be confirmed.

#### **4 Finances**

- 4.1 The last LTCCP was the last time a cashflow analysis was done. The returns from forestry were averaged over 10 years. This figure has been used for the first 3 years of the LTCCP as the "forestry contribution" offsetting the General rate. This contribution is, of course, subject to averaging again in the next LTCCP and will either increase or decrease depending on the projected returns to forestry over the 10 years of the plan coupled with the "operational reserve" created over the last two and half years of the last LTCCP.
- 4.2 As Council's are non taxable entities( while Council Controlled Trading Organisations (CCTO's) are taxable), unless there are overall taxation advantages to the group I have always recommended that forestry remains owned and operated by the parent Council.
- 4.3 The budget for 2007/08 is as follows.

Forestry log Sales	(44,858.)
Replanting costs	3,296
Insurance	2,400
Consultancy costs	3,090
Internal Charges	<u>1,904</u>
Net Income	<u>(34,168)</u>

10 year average contribution to rates 99,593 per year

Deficit in Operational Reserves  
pending anticipated log sales over 10 yrs 112,909

Land value 63,150

Forestry Value 882,166

## 5 Comparisons with other like districts.

5.1 The table below shows the comparison. You will note that some districts (like Waimate and Wanganui) are into Forestry as a true investment with a view of reducing the rate burden in future years. Note the recent publicity from Wanganui about the significant reduction in income from this source. Forestry investments are held for long-term gain and cannot always be relied upon to produce a steady dependable cashflow to offset rates. Forestry cashflows, therefore, are better suited to funding long term assets by use of internal borrowing to fund infrastructure and capital expenditure rather than operational expenditure.

5.2 Valuations are based primarily on the age profile of the forest areas.

District	Forestry Area Ha	Forestry Value \$000
Rangitikei	73.2	882
Wanganui #	1,080.5	5,656
Manawatu *	81.1	825
Tararua #	364.7	1,337
Horowhenua	302	2,177
District	Forestry Area Ha	Forestry Value \$000
Waimate	1,257	4,701

\*23.3% joint venture with Palmerston North City

# Tararua and Wanganui use a separate company to own and operate their forestry holdings

