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Report to the Utility Services Committee
from David Benham, Divisional Manager, Utility Services

Plantation Forestry : Proposed Operating Plans 2001-2010

1. Purpose

To provide a more detailed analysis of Plantation Forestry's Operating Plan for 2001/02.

2. Exclusion of the Public

Grounds for exclusion of the public under section 48(1) of the Local Government Official Information Act 1987 are:

That the public conduct of the whole or relevant part of the meeting would be likely to result in the disclosure of information for which good reasons for withholding exists, i.e. to carry on commercial negotiations.

3. Financial Summary

	2001/02 Budget	2000/01 Budget	Budget Variance	2000/01 Forecast
External Income - Logging	2,352,141	5,530,843	3,178,702 U	4,407,000
External Income - Grazing	2,125	10,000	7,875 U	4,000
External Income - Land Sale	-	-	-	21,000
Total External Income	2,354,266	5,540,843	3,186,577 U	4,432,000
Reserve & Land Sale Interest	3,846	5,518	1,672 U	18,000
Total Income	2,358,112	5,546,361	3,188,249 U	4,450,000
Direct Expenditure				
Personnel	219,780	209,090	10,690 U	200,000
Materials	124,783	136,931	12,148 F	130,000
Transport	22,362	23,821	1,459 F	23,000
Internal Contractors				
Utility Support	43,298	40,949	2,349 U	40,949
Engineering Consultancy	2,000	10,000	8,000 F	10,000
IT & Support Services	4,710	4,850	140 F	4,850
Resource Policy	6,500	5,764	736 U	5,764
Consents Management	2,000	-	2,000 U	2,000
Regional Parks (Operations)	9,016	15,000	5,984 F	15,000
Biosecurities	15,000	-	15,000 U	-
U/H Depot Rent	10,605	6,329	4,276 U	6,329
Total Internal Consultants	93,129	82,892	10,237 U	84,892
Direct Expenditure (excl'g Contractors)	460,054	452,734	7,320 U	437,892
Contractors / Consultants	1,572,279	4,011,825	2,439,546 F	3,210,000
Total Direct Expenditure	2,032,333	4,464,559	2,432,226 F	3,647,892
Indirect Expenditure				
Financial Costs	746,206	693,062	53,144 U	690,000
Depreciation	68,811	64,045	4,766 U	60,000
Gain on Sale	-	-3,000	3,000 U	-3,000
Corporate Overhead	59,857	52,958	6,899 U	52,958
Total Indirect Expenditure	874,874	807,065	67,809 U	799,958
Total Expenditure	2,907,207	5,271,624	2,364,417 F	4,447,850
Operating Surplus / (Deficit)	-549,095	274,737	823,832 U	2,150
Dividend	-150,000	-300,000	150,000 F	-150,000
Adjusted Operating Surplus / (Deficit)	-699,095	-25,263	673,832 U	-147,850

Statement of Funding

	<i>2001/02 Budget</i>	<i>2000/01 Budget</i>	<i>Budget Variance</i>	<i>2000/01 Forecast</i>
Cash was provided from:				
Operating Activities				
Operating Surplus	-699,095	-25,263	673,832 U	-147,850
Add Back Dividend	150,000	300,000	150,000 U	150,000
Add Back Depreciation	68,811	64,045	4,766 F	60,000
Add Back Gain on Sale	-	-3,000	3,000 U	-3,000
Funds from Operations	<u>-480,284</u>	<u>335,782</u>	<u>822,066 U</u>	<u>59,150</u>
Investing Activities				
Asset Disposals	-	9,000	9,000 F	9,000
Transfer from Reserves	3,846	-	3,846 U	4,000
New Loans	1,299,275	1,060,204	239,071 F	1,331,318
Funds from Investing Activities	<u>1,303,121</u>	<u>1,069,204</u>	<u>244,225 F</u>	<u>1,344,318</u>
Funds provided to:				
Investing Activities				
Reserve Interest	3,846	5,518	1,672 F	4,000
Investment Additions (Silviculture)	257,800	296,379	38,579 U	296,379
Structures & Other Capital Works	80,000	450,000	370,000 F	600,000
Vehicles	-	30,000	30,000 F	30,000
Debt Repayment	331,191	323,089	8,102 U	323,089
Funds to Investing Activities	<u>672,837</u>	<u>1,104,986</u>	<u>354,991 F</u>	<u>1,253,468</u>
Net Increase / (Decrease) in Funds Held	<u><u>150,000</u></u>	<u><u>300,000</u></u>	<u><u>150,000 U</u></u>	<u><u>150,000</u></u>

4. Variance Explanation

The budgeted reduction in logging revenue is due to lower predicted tonnage and the lower quality blocks to be harvested in 2001/02 and correspondingly there is a reduction in contractor and consultant costs. However, whilst other direct costs are not budgeted to increase significantly, higher financial costs combined with the reduced income generates a significant deterioration in projected return.

In terms of future years, projected compounding financial costs significantly increase projected debt. The following factors have all contributed:

- Reduced revenue resulting from reduced price projections and expected volumes (especially in early years – Exit Strategy MAVELS);
- Increased expenditure, i.e. harvest costs rising;
- Increase in silviculture costs;
- Repayment of FEL loans increase financial costs due to interest rate differential;
- Accelerating financial costs and debt.

5. **Debt**

Attached graphs (**Attachment 1**) show various scenarios using different 'dividend' payments to the Council. Clearly the continuation of the current dividend level of \$300,000 under current assumptions is not sustainable. In effect the compounding interest effect of taking out cash early cannot continue to be met.

6 **Recommendation**

That information be received and comments noted.

DAVID BENHAM
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Attachment 1 - Projected Debt (Compared to Projected Forest Value)