

**Statement of Corporate Intent**  
2010–11 to 2012–13



## Our Vision

To be a leader in a sustainable Victorian timber industry.

## Our Purpose

To build a responsible business that generates the best community value from the commercial management of Victoria's State forests.



## Our Role

VicForests was established as an outcome of the Victorian Government's *Our Forests Our Future* policy. As a State owned business corporation, VicForests is an autonomous commercial entity administered by an independent Board of Directors. We are accountable to the Victorian Government through the Minister for Agriculture as our relevant minister and, to the Treasurer, who retains responsibilities legislated in the *State Owned Enterprises Act 1992*.

## Our Values

**Professional:** We operate in an ethical, efficient and accountable manner

**Sustainable:** We respect and care for our environment and the communities in which we operate

**Safe:** We aim for zero harm in all that we do

**Customer Focused:** We are responsible in our commercial dealings



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## Overview

VicForests commenced operations on 1 August 2004 as a State owned enterprise responsible for the sustainable harvest and commercial sale of timber from Victoria's public forest estate. While the organisation is focused on making effective gains from this valuable forest resource, it is also required to manage State forests in a way that maintains opportunities for multiple forest uses for future generations.

VicForests has successfully implemented the commercial agenda foreshadowed in the 2002 Government white paper *Our Forests Our Future*. Sawlogs, pulplogs and commercial firewood logs are now sold in an open, transparent auction, as a delivered

sale to the customer's site. Harvest and haulage services are similarly awarded in a regular, open and competitive tendering process. A Sustainable Forests Management System has been implemented which is certified to the Australian Forestry Standard (AS 4708-2007).

This same period has also been characterised by increased pressures on profitability within the native forestry operating environment. Volatility of the Australian dollar and rising oil prices have had the combined impact of raising operating costs, while suppressing domestic prices through cheaper imports. The business has also been required to adjust to a decreasing resource base, following the 2003, 2006-07

and 2009 fires and increases to Victoria's forest reserve system.

VicForests' successful reforms have placed the organisation in a good position to respond to, and influence, this dynamic environment. This will translate to increased returns to Victoria through greater efficiency across the entire supply chain, reducing supply risks through longer tenure sales agreements and maintaining an active dialogue with the timber community.

This Statement of Corporate Intent describes how VicForests will respond to this dynamic environment and these opportunities during 2010-11 to 2012-13.

## Purpose

To build a responsible business that generates the best community value from the commercial management of Victoria's State forests.

## Objectives

- To manage efficiently and sell allocated timber resources to maximise long-term economic returns to Victoria.
- To respond to, and support the objectives of Victoria's Sustainability Charter.
- To operate in a framework consistent with Victorian Government policy and priorities

## Scope of Operations

VicForests was established as an outcome of the Victorian Government's *Our Forests Our Future* policy. VicForests is responsible for the sustainable harvest and sale of native forest timber from the public forest estate in eastern Victoria. As a State owned business, VicForests is an autonomous commercial entity, administered by an independent board of six directors. It is responsible to the Victorian Government through the Treasurer, as shareholder, and the Minister for Agriculture, as the responsible Minister, who also holds accountability for Victoria's commercial forest policy.

VicForests undertakes the sustainable harvest, sale and delivery of certified, native forest

log products to 30 customers in Victoria and southern NSW. Timber rights are granted to VicForests by the Department of Sustainability and Environment (DSE), through an Allocation Order and Timber Release Plans, which are instruments under the *Sustainable Forests (Timber) Act 2004*.

Forward sawlog sales are undertaken through Australia's only on-line, fully competitive log auction system – the Price Allocation Model. About 2 million m<sup>3</sup> of logs are sold each year, comprising more than 600,000 m<sup>3</sup> of E+ sawlog and about 1.4 million tonnes of pullogs.

Logs are now sold on a delivered basis, since VicForests took over responsibility for harvest and haul operations in 2006-07, and the competitive procurement of

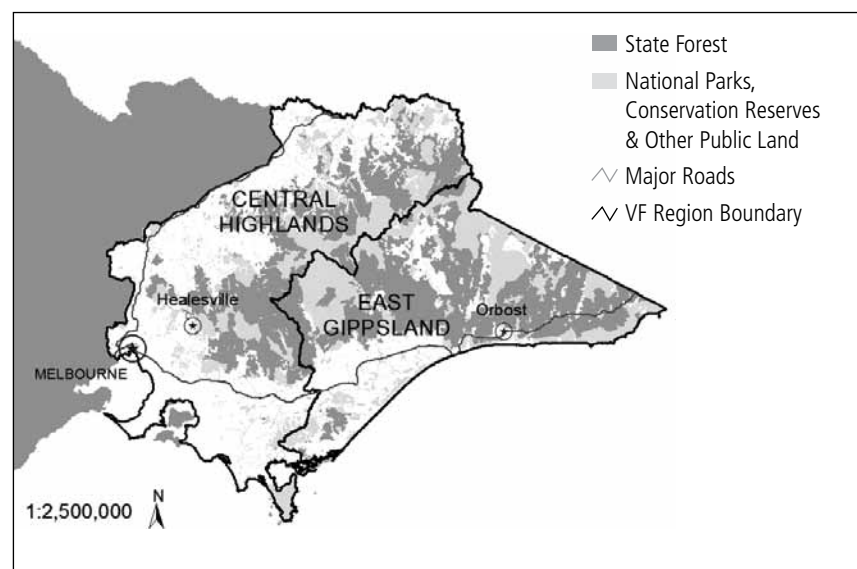
harvest and haul contract services in 2008.

All forest management activities are certified to the Australian Forestry Standard (AFS) and VicForests continues to monitor the alternative Forest Stewardship Council (FSC) scheme.

VicForests' forest management activities are regulated by DSE under the *Sustainable Forests (Timber) Act 2004* and a range of specific legislation and regulatory codes.

VicForests operates two regions in eastern Victoria – Central Highlands, with a regional head office in Healesville and East Gippsland, administered from Orbost. Staff are located in 10 provincial locations, with a Corporate Support Office in Melbourne.

**Figure 1: VicForests' management areas, showing the areas of State Forest and National Park.**



# Operating Environment



## Introduction

The previous 12 months have seen unprecedented levels of financial stress on Australian forest growers, resulting from the global financial crisis. These same forces have been reducing margins for hardwood woodchip exporters, domestic paper and sawn lumber producers. Simultaneously, the state and federal governments have made a number of significant policy changes

to secure the forestry industry and enhance business opportunities.

In order for the Victorian hardwood industry to continue to play an important role in generating economic activity through the supply of timber products for both domestic and export markets, the industry, including VicForests, must adjust to the changing operating environment through the adoption of new technology, its positioning

in existing and new markets and the promotion of Victoria's native forest timber products.

## National Policy Changes

Recent federal commitments to the industry include:

- Declaring ForestWorks as the new Forest and Forest Products Industry Skills Council



- Updating the data contained in Forest and Wood Products Industry Workforce and Industry database
- Working with regional governments and industry to prevent illegal harvesting of timber by supporting certification schemes, disclosure requirements at point of sale and supporting emerging global carbon markets
- Evaluating impacts of climate change on forestry and the vulnerability of forest systems
- Establishing a Forest Industries Development Fund to encourage ongoing investment to help boost the export of forest products

Early in 2010, the Victorian Renewable Energy Target (VRET) scheme began transitioning into the Federal Government's Mandatory Renewable Energy Target (MRET) scheme. This coincided with increasing Australia's targeted energy consumption from renewable sources to 20% by 2020. Unlike the preceding VRET scheme, native forest wood waste qualifies as a renewable energy source under the MRET scheme, subject to the fibre being a by-product of other management objectives.

The Federal Government continues to support the 1992 National Forest Policy Statement. The 20 year Regional Forestry Agreements formed under this policy are currently undergoing their second five-yearly review. DSE, in conjunction with the

Commonwealth, has prepared the required report on performance which will be published following completion of the public consultation phase.

## State Policy Changes

VicForests is regulated under the *Sustainable Forests (Timber) Act 2004* and the *State Owned Enterprises Act 1992*. Recent changes were made to the VicForests' Order in Council. The Minister for Agriculture was specified as the organisation's relevant Minister, as was the requirement that VicForests undertake its commercial activities in a manner which will maximise long-term economic returns to Victoria.

The Minister for Agriculture released the 2009 Timber Industry Strategy (TIS) for Victoria, which addresses a range of issues to take forest management and the timber industry forward. The TIS sets out the following priorities:

- More productive, competitive and sustainable timber industry
- Develop and support efficient timber markets
- Innovative forestry science, technology, and practice change
- Strong timber industry communities

VicForests will continue to work closely with a number of Victorian Government departments to implement of the Timber Industry Strategy.

# Sustainability Charter

## Background

In 2006, the Minister for the Environment and the Minister for Agriculture launched the *Sustainability Charter for Victoria's State forests*. The Charter is a requirement of Section 11 of the *Sustainable Forests (Timber) Act 2004*. VicForests is specifically required by Section 12 of the Act to respond to the objectives of the Sustainability Charter by developing initiatives and targets in support of those objectives.

VicForests has two primary mechanisms for addressing this requirement. The first is the VicForests' Sustainable Forest Management System (SFMS), which has been developed and certified to the AFS . The second is VicForests'

Corporate and Business Plans, which are developed annually and outline initiatives and strategies for the organisation.

## Sustainable Forest Management System

VicForests' Sustainable Forest Management System is designed around the requirements of the Montreal Process Criteria and Indicators which also form the basis of the Sustainability Charter. As part of the continuous improvement program incorporated into the SFMS, VicForests establishes objectives and targets for its activities and operations. These objectives and targets form one component of the initiatives

and targets required to address the Sustainability Charter.

VicForests reports annually on performance against these objectives and targets in its Sustainability Report. The current objectives and targets for VicForests' SFMS are included in Appendix One to this Statement of Corporate Intent.

## Corporate Plan

VicForests' Corporate Plan is prepared annually, and outlines strategies and initiatives for the next three years. Performance against these strategies and initiatives are reported each year in VicForests' Annual Report.



# Strategic Directions

## Performance against plan

VicForests' strategies for the period 2010-11 to 2012-13 build on the significant achievements that the organisation has made since its commencement in 2004. During this time, VicForests has implemented major reforms for the Victorian native forest processing industry and the native forest harvesting and haulage sector. These initiatives have delivered against the State Government's *Our Forests Our Future* policy commitments and the organisation's own commercial remit, as described in the Order in Council with which VicForests was

established. The key elements of this program of reform, which have now been successfully delivered, are outlined below.

## Implementation of an open, competitive, on-line sales platform

The Price Allocation Model (PAM) has resulted in unit price increases of up to 50% for some log products. It has also facilitated rational consolidation in the Victorian native forest timber industry. Importantly, the PAM also meets Victoria's obligations under National Competition Policy requirements for State-owned forestry agencies.

## Moving from stumpage (in-forest) sales to mill door (delivered) sales

The move from stumpage sales to mill door sales transformed VicForests into a commercial forest management and logistics business, with greater ability to manage the distribution of timber to the most appropriate and highest value markets. This initiative was critical to establishing the on-line auction system. It has also provided the basis for moving to the open tender of contract harvest and haul services.

## Achieving forest management certification

VicForests has achieved forest management certification to the AFS and is continuing to pursue certification to the alternative FSC standard. This has provided a sound framework for continuous improvement in the organisation, which is reflected in its improving environmental performance record. Certification also underpins the efforts of VicForests' customers to market their products domestically and internationally.

## Developing a sound understanding of VicForests' timber resource base and capacity to analyse

VicForests has continued to develop its expert capacity in timber resource modelling and analysis. This has enabled the organisation to improve plans of its operational activities and collaborate with DSE on resource allocation processes. This also provides the basis for an annual Resource Outlook briefing to industry, government and community stakeholders as mandated in the TIS.



### **Implementation of transparent arrangements for engagement of harvest and haulage services**

To enable a seamless transition to delivered sales in 2006, VicForests commenced a process to transition responsibility for the harvest and haulage contractors which were previously contracted to, or engaged by, harvesting syndicates. In line with VicForests' stated intention at this time, based on a commitment to transparency in commercial arrangements, a competitive tender for all harvest and haulage services was completed in 2008. This significant achievement completed the implementation of delivered sales.

### **Development of a Stakeholder Engagement Strategy**

A strategy has been developed and implemented to engage effectively with an extensive audience, including government, customers, contractors, non-government organisations, media, employees, industry organisations and the general public. Two regionally based positions have been filled to assist this implementation. The ongoing focus on Stakeholder Engagement is detailed in this year's corporate initiatives.

### **Development of process management tools to generate greater value with existing resources**

VicForests has explored the applicability of a number of process management models to improve business efficiency. Lean Management has been selected as a process improvement framework,

to provide management and staff with tools to review processes, improve efficiencies within processes and eliminate waste.

VicForests has built a robust and agile supply chain through rationalising sales agreements to a delivered price, directly contracting harvest-and-haul providers and developing additional internal contract management skills. In addition, systematic reviews and external audits across the full breadth of operations have been implemented. Refinements to this supply chain will be sort through the systematic application of the Lean principals.

### **Review of VicForests' strategic marketing and business development plans**

In response to substantial changes that have occurred in VicForests' operating environment, an extensive review has been undertaken of VicForests' strategic Marketing Plan. It has been informed by internal experience and industry comment. Insights and recommendations from the strategic marketing plan have been integrated into the Corporate Plan.

### **Commencement of a new Log Allocation Project**

The impacts of the 2009 bushfires, and the subsequent review of the Allocation Order, resulted in this project being temporarily delayed. With both these major undertakings now resolved, this project is able to proceed, with a sales process expected to run in early 2011. This project aims to describe the properties of the available resource, quantify



its future availability, assess the feasibility of new market opportunities and determine the most appropriate method of marketing and allocation.

### **Feasibility of supply of biomass for energy production with potential customers**

Work on this project, combined with market analysis, has demonstrated that opportunities exist to utilise waste material from existing harvesting operations, commercially. VicForests will continue to work on this project and explore opportunities for the new Log Allocation Project.

# Key Strategies

## Overview

Now that the organisation has completed its major reform agenda, VicForests' strategic directions for the 2010-11 to 2012-13 planning cycle reflect the new phase of stabilisation and maintenance of the new business model and organisational structure in an uncertain economic environment. Accordingly, VicForests has reviewed its forward strategy to address a new set of challenges. The new strategic directions are presented in Figure 2 and described below. All of the initiatives outlined in this plan will be subject to the development and approval, of robust businesses cases detailing estimated project costs and expected benefits by VicForests' Board.

## Strategy 1: Improved Commercial Performance

In response to increasing pressures on its operating environment, VicForests recently restructured its operations to create greater focus on short, medium and long term planning and greater workforce flexibility regarding the location of operations within the available estate.

### Goals

To maximise long-term economic returns to Victoria by:

- Reducing staff and contractor costs
- Implementing a suite of incremental efficiency gains across key cost centres and capturing value from existing harvesting operations

- Improving business processes to optimise value from existing resources
- Ensuring continuous improvement in VicForests' compliance with external regulatory requirements
- Developing new business opportunities for currently unutilised timber resources
- Realising the market potential of existing business development opportunities

## Initiative 1.1: Implement lean management processes across the supply chain

VicForests will use a range of forums to identify initiatives to improve its business efficiency and reduce costs across its major expenditure items. This process will include the establishment of Lean Teams across the value chain to investigate its major cost items. These will identify opportunities to improve efficiencies within processes and eliminate waste. Key areas that will be considered include information systems integration, haulage optimisation, harvesting productivity and road management. VicForests is already participating in the industry wide CRC for Forestry Harvest and Operations program and will identify ways to further develop the harvest and haulage sector. A set of initiatives will be prioritised from these teams for implementation during this planning cycle.

## Outcomes

A suite of initiatives to improve business efficiency, eliminate waste and reduce cost continuously. Cost saving targets will be set as part of this process.

## Initiative 1.2: Offer commercial quantities of log products to a range of existing and new market segments

VicForests has been undertaking several initiatives that will augment its level of knowledge about future marketing of timber resources. These include a Development Agreement with a bioenergy company for the sale of unutilised residues as biomass from East Gippsland, an assessment of the feasibility of Orientated Strand Lumber (OSL) manufacturing from the mixed species resource in East Gippsland, the Joint Sustainable Harvest Levels (JoSHL) project with DSE and the development of a thinning strategy. All these initiatives have provided important information and an improved picture of potential marketing opportunities for the log resource. This project will describe and allocate the forecast log resources in a manner, which, delivers the greatest returns for VicForests.

The project has completed the first two of the five milestones described below:

1. Resource description
2. Communications strategy
3. Marketing
4. EOI and qualification
5. Competitive allocation

## Outcomes

This project will improve industry understanding of the available timber resource and the potential markets available to VicForests. It will provide a competitive framework for the pricing and allocation of logs that meets government policy requirements. It will clarify policy issues that constrain VicForests' ability to operate commercially and realise the market value of its timber resources. The final outcome is improved value from log products, with investment in value-adding that provides sustainable long-term returns for VicForests.



## Initiative 1.3: Implement a new supply chain management system

Phase 1 of VicForests' supply chain management system, LogTracker, was completed more than two years ago. Phase 2 of LogTracker, involving the development of field data capture of log product data, was planned to be implemented during 2009–10. While LogTracker has achieved most of its original objectives, it has proven to be a system which still incurs substantial support expenses. The current Coupe Information System (CIS), which is a stand-alone database, has reached its end-of-life status and requires replacement. The investigation of replacement systems has uncovered options to replace both LogTracker and CIS, implement new hand-held technology and generate savings.

### Outcomes

Field data capture will reduce the reliance on manual data entry and reduce inefficient travelling and office time for field base staff. This is expected to generate long-term cost reductions for the business.

## Strategy 2: Strong timber industry communities

VicForests' freedom to operate and its access to a skilled workforce are predicated on public support for the industry and active regional communities. VicForests must continue to focus on building effective stakeholder networks and coalitions to address key issues affecting VicForests. Effective stakeholder engagement is a key factor in ensuring the success of all of VicForests' strategic initiatives.

### Goals

Enhance the communities' understanding of the benefits of harvesting Victoria's native forests through:

- Strengthening industry communication and promotion of its benefits
- Promoting a positive industry perception in local communities
- Countering criticisms with factual information
- Empowering staff to act as ambassadors by providing them with appropriate communication tools
- Improving current and developing new internal stakeholder communication systems and processes



### **Initiative 2.1: Focus on stakeholder relationship development**

The stakeholder environment within which VicForests operates, continues to evolve. In particular, investigating the feasibility of FSC certification, VicForests' role in climate change and water policy issues and the provision of data to inform building codes has opened up new areas of stakeholder engagement for the organisation. In addition, the need to improve community understanding of the sustainable practices and benefits

of the industry, as outlined in the TIS, has prompted the need for a comprehensive media engagement plan.

#### **Outcomes**

The key outcomes of this strategy will be an updated Stakeholder Engagement Strategy and Implementation Plan (including Media Plan), based on reinforcing alliances with existing stakeholders and informing and engaging additional stakeholder groups, including closer ties with Indigenous Traditional Owners. This will require an analysis of existing stakeholder relationships, identifying opportunities for new relationships and developing the appropriate tools to meet their communication needs.

### **Initiative 2.2: Improve internal systems and processes for interacting with key stakeholders**

VicForests recognises that the ongoing success of the business requires a shift from issue based engagement to a holistic and sustained engagement process. This project includes a review of existing processes including the Communications Register, Stakeholder Database and Issues Database and the need to develop additional systems and procedures, including guidelines for interacting with key stakeholders.

#### **Outcomes**

This project will ensure consistent and effective processes are

in place for identifying and recording stakeholder relationship development, meeting stakeholder needs and providing adequate information for reporting requirements.

### **Initiative 2.3: Focus on regional community engagement**

VicForests requires a framework to promote the initiatives in which it is already engaged, and to develop additional initiatives to support local communities. The main focus will be on developing a regional engagement plan for each of our two major regional areas, managed by the Community Relationship Manager in each region. The Plan includes an increased focus on the educational sector.

#### **Outcomes**

Based on feedback from key regional organisations and committees, a corporate social responsibility framework and community engagement plan will be developed into an implementation plan.

### **Strategy 3: Productive competitive sustainable industry**

A major risk to VicForests and Victoria's hardwood timber industry is lack of resource security and uncertainty around future resource availability. Until recently, long-term timber availability modelling was conducted by DSE. VicForests now performs this capability

in-house, however estimates are still based on DSE's State-wide Forest Resource Inventory (SFRI) and DSE's mapping of areas available and suitable for timber production.

Resource forecasts have also been amended to take account of the 2009 fires, that burnt significant areas of the high-quality Ash resource in the Central Highlands, and nominated Icon and Old Growth reservations in East Gippsland. These impacts will have a significant effect on the quality and quantity of available timber in the future, in both the Central Highlands and East Gippsland.

VicForests has continued to develop its forest resource modelling capability to improve its ability to forecast wood supply at strategic, tactical and operational levels. A declining resource base amplifies the need for industry to exploit higher value uses from traditionally lower value products by using new technology and finding new markets. It is envisaged that access to better resource information, coupled with longer tenure and a more active secondary market, will assist industry in doing this.

### Goals

Be sustainable and competitive by:

- Providing greater certainty of supply through Working Forest Plans
- Improving estimation and communication of yield forecasts

- Introducing up to 20 year tenure sales agreements and a secondary sales system

### Initiative 3.1: Spatially delineate the working forest into management coupes

#### Outcomes

This project will determine the spatial configuration of contiguous harvesting units across the total area of forest available to VicForests. Set as a condition to the approval of Allocation Orders by DSE, this will provide the basis for implementing 40 year Working Forest Plans, which will be developed in conjunction with government.

### Initiative 3.2: Improve forest stand information and yield forecasting

#### Outcomes

This project will:

- Remotely acquire forest cover and terrain information using Light Detection And Ranging (LiDAR) measurements across eastern Victoria
- Establish a representative number of ground truth plots (approximately 200)
- Re-stratify the available timber resource by site productivity class and species
- Develop improved growth and yield curves

### Initiative 3.3: Establish long-term sales agreement process

The purpose of the project is to develop the process to conduct major and long-term auction of Ash and Mixed Species sawlogs.

#### Outcomes

This project will implement a competitive framework for the pricing and allocation of high grade logs, that meets government policy requirements. This will extract the greatest value for high grade log products, whilst achieving optimal allocation of long term contracts of up to 20 years to industry.

### Initiative 3.4: Open a secondary market auction platform

The current system for assigning volume from one customer to another is slow, administratively expensive, requires VicForests' direct involvement and raises probity risks. Providing industry with an online system for market-based allocation of unwanted products or supply periods will, not only be more efficient for all parties, but will stimulate activity in the primary market, as bidders will feel more confident of reselling unwanted volumes on the secondary market.

#### Outcomes

Provision will be made for secondary sales using the online auction system.

**Figure 2:** VicForests' Strategic Directions 2008-09 to 2010-11

Strategy Drivers	Key Strategies	Strategy Goals	Strategic Initiatives
<p>\$AUD increasing exposure to mature global wood market</p> <p>Public expectation that VicForests will be profitable</p>	<p>1. Improved commercial performance</p>	<ul style="list-style-type: none"> <li>• Reduce indirect costs</li> <li>• Reduce process and systems waste</li> <li>• Utilise more of each tree and coupe</li> <li>• Maximise value opportunities within existing products and markets</li> </ul>	<p>1.1 Implement lean management processes across the supply chain</p> <p>1.2 Offer commercial quantities of log products to a range of existing and new market segments</p> <p>1.3 Implement a new supply chain management system</p>
<p>Wildfire generated public interest in land management</p> <p>Complex stakeholder environment</p> <p>Revised government Timber Industry Strategy</p>	<p>2. Strong timber industry communities</p>	<ul style="list-style-type: none"> <li>• Strengthen industry</li> <li>• Promote a positive industry perception</li> <li>• Mitigate factually incorrect criticisms or threats</li> <li>• Enable staff to be positive ambassadors</li> <li>• Effective stakeholder communications systems</li> </ul>	<p>2.1 Focus on stakeholder relationship development</p> <p>2.2 Improve internal systems and processing for interacting with key stakeholders</p> <p>2.3 Focus on regional community engagement</p>
<p>20 year resource knowledge and security</p> <p>The need to recover VicForests' financial performance</p>	<p>3. Productive competitive sustainable industry</p>	<ul style="list-style-type: none"> <li>• Provide greater certainty of access to public native timber resources</li> <li>• Improve estimation and communication of yield forecasts</li> <li>• Introduce up to 20 year tenure sales agreements</li> </ul>	<p>3.1 Spatially delineate the working forest into management coupes</p> <p>3.2 Improve forest stand information and yield forecasting</p> <p>3.3 Establish long-term sales agreement process</p> <p>3.4 Open a secondary market auction platform</p>

Figure 3: Project timelines

VicForests' Strategic Directions													
Strategy	Goals	Timelines											
		2010-11				2011-12				2012-13			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
1. Improved commercial performance	1.1 Implement lean management processes across the supply chain												
	1.2 Offer commercial quantities of log products to a range of existing and new markets												
	1.3 Implement a new supply chain management system												
2. Strong timber industry communities	2.1 Focus on stakeholder relationship development												
	2.2 Improve internal systems and processing for interacting with key stakeholders												
	2.3 Focus on regional community engagement												
3. Productive competitive sustainable industry	3.1 Spatially delineate the working forest into management coupes												
	3.2 Improve forest stand information and yield forecasting												
	3.3 Establish long-term sales agreement process												
	3.4 Open a secondary market auction platform												

## Measuring Performance

### Key

- Performance achievement of 90% of the target
- Performance achievement of 85% to 90% of target
- Performance below 85% of target

Indicator	Description	Frequency	Actual 2009-10	Target 2010-11	Target 2011-12
<b>Financial performance measures</b>					
EBIT to budget	The percentage of year to date EBIT (Earnings Before Interest and Tax) that is within budgeted amount	Monthly	100% or greater	100% or greater	100% or greater
Revenue to budget	The percentage of year to date revenue that is within budgeted amount	Monthly	100% or greater	100% or greater	100% or greater
Expenses to budget	The percentage of year to date indirect expenses (overheads) that is within budgeted amount	Monthly	100% or less	100% or less	100% or less
Increase in unit sawlog price	The percentage increase of year to date weighted average sawlog price over previous year end actual	Monthly	3%	3%	3%
Increase in unit pulpwood price	The percentage increase of year to date weighted average pulpwood price over previous year end actual	Monthly	4%	3%	3%
Debtor days outstanding	This indicator is a measure of the average number of days that customer debt was outstanding at period end	Monthly	Less than 45 days	Less than 45 days	Less than 45 days
<b>Staff and contractor measures</b>					
Lost time injury frequency rate – staff	This indicator is a measure of the number of reportable workplace incidents impacting VicForests' direct employees	Monthly	7	0	0
Lost time injury frequency rate - contractors	This indicator is a measure of the number of reportable workplace incidents impacting VicForests' contractors.	Monthly	20	0	0
Project plans on-time, in-budget	There are a number of projects being undertaken by VicForests. This is a composite measure to track their progress	Quarterly	97%	98%	99%
<b>Customer measures</b>					
Delivered in Full and On Time (DIFOT)	This indicator measures the extent to which customer orders are Delivered In Full and On Time. It reflects VicForests' performance in delivery and consistency of supply.	Monthly	94%	96%	98%

Indicator	Description	Frequency	Actual 2009-10	2010-11	Target 2011-12
<b>Environmental performance measures</b>					
Environmental performance score	This measure tracks the extent to which VicForests' harvesting contractors meet environmental coupe requirements as prescribed by VicForests	Monthly	95%	96%	97%
Coupe Monitoring Records completed	This measure tracks the rate at which formal coupe monitoring records are completed during the period	Monthly	90%	95%	97%
<b>Process Measures</b>					
Tactical planning performance	This is a measure of the number of years of approved volume against sales commitments	Annual	3	3	3
Road works completed against plan	This measure tracks the extent to which major road works are completed on time. It will also indicate the quality of VicForests' planning estimates	Monthly	94%	95%	96%
Silviculture liability	This is a measure of the amount of coupes that have been harvested and not regenerated and handed back to DSE	Annual	Not greater than last three years harvest area	Not greater than last three years harvest area	Not greater than last three years harvest area
Cubic metre logged per staff	This measure will track general efficiency improvements in VicForests' operations	Annual	2% increase on 2008/09	2% increase	2% increase
<b>Salvage</b>					
Timber volume harvested	The volume harvested from salvage operations against business plan (m <sup>3</sup> )	Quarterly	100% or greater	100% or greater	n/a
Mill door timber value	The mill door value of timber harvested from salvage operations against the business plan (\$)	Quarterly	100% or greater	100% or greater	n/a
Processed timber value	A measure of economic value of salvage operations to the industry and State economy	Quarterly	100% or greater	100% or greater	n/a
Employment	A measured of employment by the salvage and recovery program	Quarterly	350	55	n/a
Regeneration	Area salvage harvested against area reseeded	Quarterly	100%	100%	n/a

# Appendix One

## Response to the Sustainability Charter for Victoria's State Forests, 2010-11

**Table 1:** VicForests' strategic objectives, initiatives and projects

VicForests Strategy	Strategic Objectives	Initiatives & Projects	1. To maintain and conserve biological diversity in State forests	2. To maintain and improve the capacity of forest ecosystems to produce wood and non-wood products
1. Improved commercial performance	<ul style="list-style-type: none"> <li>Reduce indirect costs</li> <li>Reduce process and systems waste</li> <li>Utilise more of each tree and coupe</li> <li>Maximise value opportunities within existing products and markets</li> </ul>	Implement lean management processes across the supply chain  Offer commercial quantities of log products to a range of existing and new market segments  Implement a new supply chain management system		
2. Strong timber industry communities	<ul style="list-style-type: none"> <li>Strengthen industry</li> <li>Promote a positive industry perception</li> <li>Mitigate factually incorrect criticisms or threats</li> <li>Enable staff to be positive ambassadors</li> <li>Effective stakeholder communications systems</li> </ul>	Focus on stakeholder relationship development  Improve internal systems and processes for interacting with key stakeholders  Focus on regional community engagement		
3. Productive competitive sustainable industry	<ul style="list-style-type: none"> <li>Provide greater certainty of access to public native timber resources</li> <li>Improve estimation and communication of yield forecasts</li> <li>Introduce up to 20 year tenure sales agreements.</li> </ul>	Spatially delineate the working forest into management coupes  Improve forest stand information and yield forecasting  Establish long-term sales agreement process  Open a secondary market auction platform		

<p>3. To promote healthy forests by actively managing disturbance</p>				
	<p>4. To maintain and conserve the soil and water resources of State forests</p>			
		<p>5. To maintain and better understand the role of Victoria's forests in the global carbon cycles</p>		
			<p>6. To maintain and enhance the socio-economic benefits of State forests to Victorian communities</p>	
				<p>7. To ensure Victoria's legal, institutional and economic frameworks effectively support the sustainable management of State forests</p>

**Table 2:** VicForests' SFMS objectives and targets

SFMS Objectives	Initiatives/ Actions	Targets	1. To maintain and conserve biological diversity in State forests	2. To maintain and improve the capacity of forest ecosystems to produce wood and non-wood products
1. Minimise the impact of timber harvesting operations on retained areas.	Increase compliance rate of incursions into buffer areas identified in CMR	93% of CMRs to identify no boundary breaches		
2. Maximise the economic returns from harvesting operations	Increase compliance of acceptable damage in thinning operations	93% of CMRs to identify <15% damage		
3. Ensure VicForests is appropriately managing regeneration commitment	Continue timely monitoring of regeneration and manage re-treatment program	Regeneration commitment to be no greater than last three years harvest area		
4. Manage identified high risk issues in appropriate time	Ensure time taken to act on CAIRs rated with risk of high or above is minimised	80% of CAIRs with high or greater risk to be closed inside 150 days		
5. Address public concerns directed towards VicForests	Respond to community queries within 24 hours	95% response rate over selected three month period		
6. Coupe Monitoring Records	Monitor the rate at which formal coupe monitoring records are completed over a given period	95% over the selected three month period		
7. Increase the long-term retention of retained trees	Continue implementation of the retained tree program	Re-assess 16 sites by December 31, 2011		
8. Decrease the level and extent of soil compaction in coupes	Continue implementation of the long-term soil compaction study	Re-assess 16 sites by December 31, 2011		
9. Minimise the risk of fuel and oil spills by improving the management and storage of this material on coupes	Increase the average annual score for fuel and oil store bunding on the coupe monitoring record to 96% compliant over the period 20010/11	96%		
10. Understand the impact of VicForests' activities on forest carbon cycles	Model the impact of VicForests' activities on forest carbon cycles	Update VicForests' carbon model by 30 April 2011		



**Table 3:** VicForests' key performance indicators

Key Performance Indicator	Initiatives/Actions	Targets	1. To maintain and conserve biological diversity in State forests	2. To maintain and improve the capacity of forest ecosystems to produce wood and non-wood products
EBIT to budget	The percentage of year to date EBIT (Earnings Before Interest and Tax) that is within budgeted amount	100% or greater than budget		
Revenue to budget	The percentage of year to date revenue that is within budgeted amount	100% or greater than budget		
Indirect expenses to budget	The percentage of year to date indirect expenses (overheads) that is within budgeted amount	100% or less than budget		
Direct expenses to budget	The percentage of year to date direct expenses (harvest and haul) that is within budgeted amount	100% or less than budget		
Debtor days outstanding	This indicator is a measure of the average number of days that customer debt was outstanding at period end	Less than 45 days		
Product Gross Margins	Grow product gross margins from year to year	>100%		
Lost time injury frequency rate - staff	This indicator is a measure of the number of reportable workplace incidents impacting VicForests' direct employees	7		
Lost time injury frequency rate - contractors	This indicator is a measure of the number of reportable workplace incidents impacting VicForests' contractors	20		
Project plans on-time, in-budget	There are a number of projects being undertaken by VicForests. This is a composite measure to track their progress	97%		
Delivered in Full and On Time (DIFOT)	This indicator measures the extent to which customer orders are Delivered In Full and On Time. It reflects VicForests' performance in delivery and consistency of industry supply	94%		



Key Performance Indicator	Initiatives/Actions	Targets	1. To maintain and conserve biological diversity in State forests	2. To maintain and improve the capacity of forest ecosystems to produce wood and non-wood products
Environmental performance score	This measure tracks the extent to which VicForests' harvesting contractors meet environmental coupe requirements as prescribed by VicForests	95%		
Coupe Monitoring Records completed	This measure tracks the rate at which formal coupe monitoring records are completed during the period	90%		
Tactical planning performance	This is a measure of the number of years of approved volume against sales commitments	3 years		
Roadworks completed against plan	This measure tracks the extent to which major roadworks are completed on time. It will also indicate the quality of VicForests' planning estimates	94%		
Silviculture liability	This is a measure of the amount of coupes that have been harvested and not regenerated and handed back to DSE	Not greater than last three years harvest area		
Cubic metre logged per staff	This measure will track general efficiency improvements in VicForests' operations	2% increase on 2008-09		
Salvage timber volume harvested	The volume harvested from salvage operations against business plan (m <sup>3</sup> )	100% or greater than plan		
Mill door salvage timber value	The mill door value of timber harvested from salvage operations against the business plan (\$)	100% or greater than plan		
Processed salvage timber value	A measure of economic value of salvage operations to the industry and State economy	100% or greater than plan		
Employment in salvage program	A measured of employment by the salvage and recovery program	350		
Salvage regeneration	Area of salvage harvest against area reseeded	100%		



Acronym	Definition
AFS	Australian Forestry Standard
CAIR	Corrective Action and Incident Report
CIS	Coupe Information System
CMR	Coupe Monitoring Record
DIFOT	Delivered In Full and On Time
DSE	Department of Sustainability and Environment
DPI	Department of Primary Industries
EBIT	Earnings Before Interest and Tax
FSC	Forest Stewardship Council
Ha	Hectares
JoSHL	Joint Sustainable Harvest Levels Project
LiDAR	Light Detection And Ranging
M3	Cubic metres
MRET	Mandatory Renewable Energy Target
OHS	Occupational Health & Safety
OSL	Orientated Strand Lumber
PAM	Price Allocation Model
SFMS	Sustainable Forest Management System
SFRI	State-wide Forest Resource Inventory
TIS	Timber Industry Strategy
VRET	Victorian Renewable Energy Target



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