

### **FORESTRYSA**







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Annual Report 2019-20

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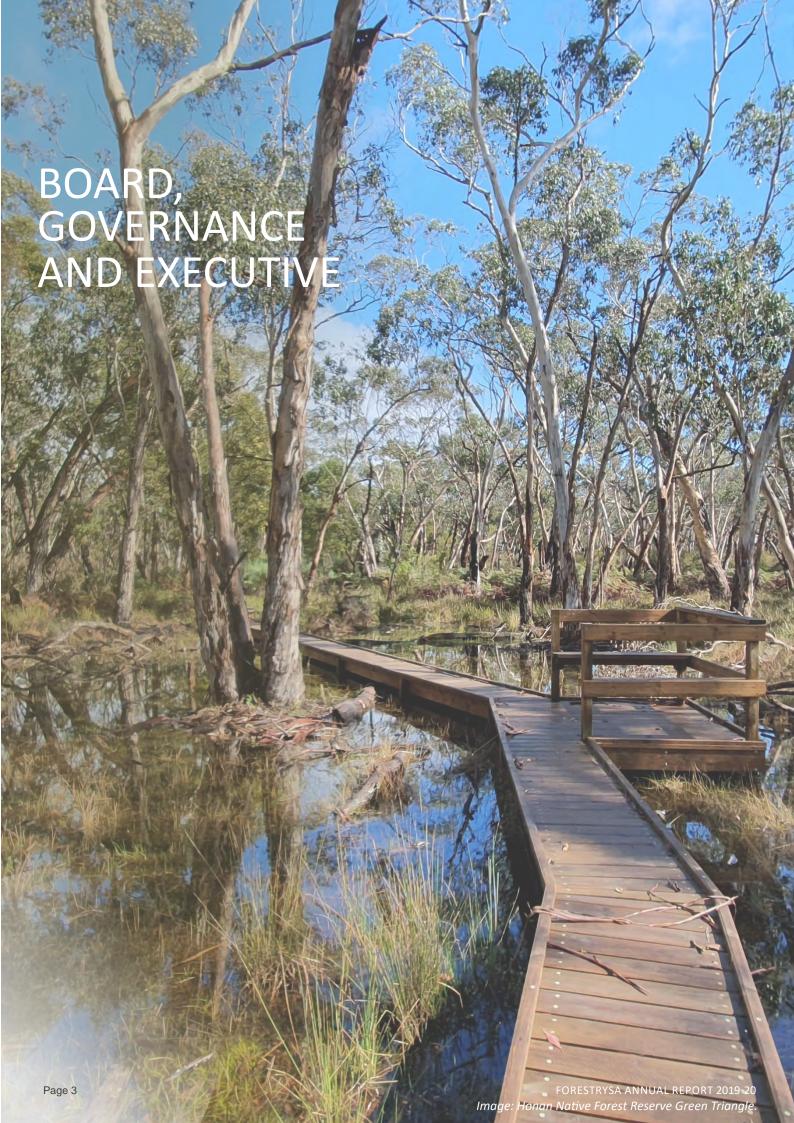
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Cover image: Mature Pinus Radiata plantation.

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# FROM THE CHAIR AND CHIEF EXECUTIVE

In accordance with the *Public Corporations Act 1993* and the *South Australian Forestry Corporation Act 2000*, we submit the Annual Report on ForestrySA's operations for the 2019-20 Financial Year.

ForestrySA has the following principal statutory functions:

- To manage plantation forests for commercial
- production;
- To encourage and facilitate regionally based economic activities based on forestry and other industries; and
- To conduct research related to the growing of wood for commercial purposes.

#### **Commercial Plantation Management**

ForestrySA continues to manage approximately 10,500ha of commercial plantation forest in the Mount Lofty Ranges.

As a sustainably managed asset, the plantation area is replanted following harvest on an annual cycle.

All ForestrySA plantation area is replanted following harvest."

In 2019-20, ForestrySA log sales revenue totalled \$12.43m, a decrease of \$1.08m (or 8%) on the previous year. Importantly, ForestrySA discontinued direct log export activities, translating into lower logistics costs.

The majority of log products (81%) were marketed to local wood processors in the Mount Lofty Ranges and Mid North regions, providing \$9.48m in revenues. More than 132,000t of log were processed by ForestrySA's local customers, an increase of 9% over the previous year.

Marketing initiatives, including competitive sales processes to optimise returns from surplus logs, have been crucial to ForestrySA's commercial outcomes.

In 2019-20, ForestrySA achieved a profit after income tax equivalent of \$8.294m, with the key driver being a change in the value of the forest assets. Since the reduction in managed plantation area to its current scale in 2015, ForestrySA has for the first time returned a cash profit for the Mount Lofty Ranges region.

#### **Non-Commercial Services**

In addition to the commercial functions of the corporation, ForestrySA provides a range of community service obligations on behalf of government. These obligations include native forest management, community use of forest reserves and fire risk management for community and asset protection. Funding of \$4.1m was provided by government during the year for community service obligations.

Continued next page.

# FROM THE CHAIR AND CHIEF EXECUTIVE CONTINUED

#### **Community Fire protection**

ForestrySA continued its key role in fire management on public lands in 2019-20 and was involved in major fire campaigns in the South East and the Adelaide Hills. Fire management is critical to ForestrySA's operations, with both asset protection and broader community protection responsibilities.

ForestrySA retains active roles in fire management and planning alongside other government agencies and participates in several forest industry initiatives involving fire programs.

#### **Community Forestry**

ForestrySA manages public access to South Australia's Native Forest Reserves in the Mount Lofty Ranges and Green Triangle regions, and the Mount Lofty Ranges plantation estate.

The impacts of COVID-19 on forest visitation in 2019-20 were significant. A material increase in visitor numbers was evident in May and June 2020 as government restrictions were eased. Visitors were encouraged to plantation areas for recreational experiences not found on other public land.

ForestrySA also plays a role in public education relating to forests and the natural environment; a range of volunteer and school programs is valued highly by community groups.

#### **Forest Industry Research and Development**

During 2019-20, ForestrySA continued to facilitate the South Australian Government's contribution towards forest industry research and development.

A four-year agreement with the University of South Australia totalling \$2m, continues until June 2021.

\$2 million contribution to forest industry research over four years on behalf of the South Australian Government."

#### The Future

ForestrySA will continue to pursue strategies to increase revenue and focus on continuous improvement to ensure cost efficiencies and effectiveness whilst benchmarking against best practice.

The COVID-19 pandemic has provided impetus to expand recreational offerings for the public. We will promote South Australia's natural environment and showcase the benefits of multiple-use forests.

On behalf of the Board, we acknowledge and thank all staff, customers, contractors, suppliers and our volunteers for their commitment to ForestrySA during 2019-20 and look forward to their contribution in 2020-21.

June Roache - Board Chair

Julian Speed - Chief Executive

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### FORESTRYSA BOARD AT 30 JUNE 2020

The ForestrySA Board consists of three independent directors, including the Chair.



### JUNE ROACHE BAcc, GradCertMgt, FAICD, FCPA, FAIM Board Chair

Ms June Roache was appointed as Chair and Board Member of ForestrySA on 1 January 2018 having previously served as a Board Member and holding the position of Chair, Audit and Risk Committee. Ms Roache is an independent non-executive director with extensive business experience having held several senior executive roles including Chief Executive of SA Lotteries, and a number of governance roles including Vice President of the World Lottery Association and Chair of the Asia Pacific Lottery Association. Her experience extends to commercial, regulatory and not-for-profit organisations in the gambling, health, sports and arts sectors. She is currently a Commissioner of the Essential Services Commission of South Australia, a Board Member of the History Trust of SA and a Board Member of COTA SA. Ms Roache has a Degree in Accounting from the University of SA, a Graduate Certificate in Management from Monash Mt Eliza Business School, and is a Fellow of the Australian Institute of Company Directors, CPA Australia and the Institute of Managers and Leaders.



### GRANT PELTON BSc (Zoology Botany), GradDip (Ecology Management) Board member

Mr Grant Pelton grew up in the Mid North of South Australia and has a Bachelor of Science degree majoring in Zoology and Botany, as well as a Graduate Diploma in Ecology and Management, from Adelaide University. He has worked in the Department for Environment and Water (DEW) since January 2004 in multiple roles including Fire Management, special projects, and from 2012-2018 as Director of Regional Programs. These include Fire Management, Visitor Services, Asset Management, Compliance, Marine Parks and the coordination of DEW's Volunteer Support Programs. Mr Pelton is currently the Chair of the Department's Diversity & Inclusion Executive Committee and is now the Director, National Parks and Crown Land Programs in the Department's National Parks and Wildlife Service, a role responsible for park policy and planning, the administration of the *Crown Land Management Act*, Volunteer Support Programs and the Department's asset management and infrastructure delivery programs.



### TIM STOLLZNOW BE (Hons Electrical), GradDipMan (Technology), FAICD Board member

Mr Tim Stollznow was appointed as a ForestrySA Board Member and Chair of the Audit and Risk Committee in April 2019. Mr Stollznow is an independent non-executive director with extensive board experience across a diverse portfolio of commercial and not-for-profit organisations. His background includes business and management experience in research and development, manufacturing, quality control and export development, predominantly in the information technology and electronics sector. He has worked in Australia and in the United States. Mr Stollznow currently serves as a director and consultant to numerous unrelated commercial organisations. He is Chairman of Yirara College and Finke River Mission, both based in the Northern Territory, as well as a Board Member of the Prostate Cancer Foundation (SA). Mr Stollznow has an Honours Degree in Engineering from the University of Adelaide, a graduate Diploma in Management from Deakin University and is a Fellow of the Australian Institute of Company Directors.

### **BOARD AND GOVERNANCE**

#### RESPONSIBILITIES OF THE BOARD

The South Australian Forestry Corporation Board (Board) has overall responsibility for the corporate governance, direction and performance of ForestrySA.

In discharging its responsibilities, the Board has worked with management on the establishment of a Strategic Plan. The Board monitors the performance of the organisation against the Strategic Plan as well as overseeing internal controls and risk management strategies.

The Board provides leadership and support to the Chief Executive in the exercise of general management functions, and approves and monitors performance against budgets and business strategies prepared by management.

The Board is committed to the principles of sound corporate governance, delegating responsibility to the Chief Executive for implementation of the Strategic Plan, day-to-day business management and ensuring a high-performing and ethical culture.

#### **BUSINESS SUSTAINABILITY**

The Board is committed to the long term sustainability of ForestrySA's business activities, operations, land stewardship and renewable forest resources, for the benefit of South Australia.

Maintaining ForestrySA's quality, environmental and safety management systems and Responsible Wood certification in the Green Triangle and Mount Lofty Ranges continues to be a key commitment of the Board.

### **BOARD AND GOVERNANCE CONTINUED**

#### **BOARD MEETING ATTENDANCE**

Board members July 2019 – June 2020	Meetings attended	Eligible for attendance
June Roache Board Chair	10	10
Grant Pelton Board Member	10	10
Tim Stollznow Board Member	10	10

Ten SAFC Board Meetings were held during the 2019-20 year.

During the year no benefit was received by any member of the Board from any interest or involvement in ForestrySA's operations or activities, apart from approved Board remuneration.

In accordance with the *Public Corporations Act 1993*, all ForestrySA Board Members are required to disclose full and accurate details of direct or indirect personal or pecuniary interests in any matter under consideration by the Board.

A conflict of interest declaration is called at each Board meeting and any issues regularly reviewed to ensure full compliance with the Act.

The Chair, June Roache, advised that as a Commissioner of the Essential Services Commission of South Australia (ESCOSA), responsible for SA Water's revenue determination, she would absent herself from any consideration or decision making in relation to ForestrySA plantations on which SA Water's Zero Cost Energy Future development may occur.

Board Member, Grant Pelton, advised that as Director, National Parks and Crown Land Programs, Department for Environment and Water (DEW), the Government agency responsible for managing the state's parks and reserves under the *National Parks and Wildlife Act 1972 (NPW)*, and the agency responsible for administering *Crown Lands Management Act 2009*, he has a potential conflict of interest in any decisions to transition lands to these Acts and would be removed from considering or approving any decisions to transition lands to these Acts.

### BOARD AND GOVERNANCE CONTINUED

#### **AUDIT AND RISK COMMITTEE**

The Audit and Risk Committee (Committee) has been established to assist the South Australian Forestry Corporation Board to fulfil its responsibilities.

This Committee is maintained by the Board as a commitment to sound corporate governance and to comply with the requirements of the *Public Corporations Act 1993*. The Committee operates in accordance with the Terms of Reference approved by the Board.

The Committee conducts an assessment of systems and practices to facilitate the development and maintenance of effective internal controls, risk management and continuous improvement.

The Board engaged Ernst & Young to provide the 2019-20 internal audit program that assists the Committee and management by providing independent advice on ForestrySA's business processes, internal controls and risk management.

In addition, the Committee has the responsibility to review ForestrySA's annual financial statements to ensure that the statements represent a fair and true view of the affairs of ForestrySA, consistent with the requirements of accounting standards and statutory reporting requirements, and to provide the Board with assurance of the reliability of financial information and financial reports.

The Committee also liaises with Auditor-General's Department staff regarding the external audit program and the resolution of matters arising from annual and periodic audits.

### AUDIT AND RISK COMMITTEE MEETING ATTENDANCE

Audit and Risk Committee members July 2019 – June 2020	Meetings attended	Eligible for attendance
<b>Tim Stollznow</b> Chair	7	7
June Roache Member	7	7
Grant Pelton Member	7	7

Seven Audit and Risk Committee Meetings were held during the 2019-20 year.

### **FORESTRYSA CHARTER**

In accordance with the requirements of the *Public Corporations Act 1993,* the following Charter for ForestrySA was effective for the reporting period 2019-20.

#### 1. INTRODUCTION

- 1.1. This Charter has been prepared by the Minister for Primary Industries and Regional Development and the Treasurer, following consultation with the South Australian Forestry Corporation, in accordance with section 12 of the *Public Corporations Act 1993*.
- 1.2. This Charter should be read in conjunction with:
  - Public Corporations Act 1993 (SA)
  - South Australian Forestry Corporation Act 2000
  - Forestry Act 1950 (SA)
  - Public Finance and Audit Act 1987 (SA)
  - Work Health and Safety Act 2012 (SA)
  - Native Vegetation Act 1991 (SA)
  - Fire and Emergency Services Act 2005 (SA)
- 1.3. Expressions used in this Charter have the same meaning as in the *Public Corporations Act 1993*.
- 1.4. In this Charter, the South Australian Forestry Corporation is referred to as "the Corporation."
- 1.5. This Charter sets out the Government's strategic objectives, priorities and Requirements for the Corporation.

#### **PART 1: STRATEGIC POSITION**

#### 2. BOARD RESPONSIBILITIES

- 2.1. The Board is responsible to its Minister for Primary Industries and Regional Development for overseeing the operations of the Corporation with the goal of:
  - 2.1.1. securing continuing improvements of performance
  - 2.1.2. encouraging and facilitating regionally based economic activities based on forestry and other industries to protect the long term viability of the Corporation and the Crown's financial interest in the Corporation for the benefit of the people and economy of the State.

#### 3. STRATEGIC-COMMERCIAL DIRECTIONS

3.1. The Government requires the Corporation, in fulfilling its statutory functions as set out in the *South Australian Forestry Corporation Act 2000*, to be a business enterprise with the principal responsibility to manage State-owned plantation forests for the benefit of the people and economy of the State, manage plantation forests for other forest owners and pursue the following strategic commercial directions:

### FORESTRYSA CHARTER CONTINUED

- 3.1.1. Manage State-owned plantation forests for commercial production in line with best practice standards for forestry operations and environmental management.
- 3.1.2. Undertake directly or with industry partners and, where appropriate commercialise, forestry related research for the benefit of the Corporation and the State.
- 3.1.3 Maximise the value of the Corporation whilst achieving other key requirements of Government set out herein.

#### 4. ECONOMIC DIRECTIONS

The Government is committed to the ongoing development of the South Australian economy through mechanisms that foster:

- economic growth, investment and reinvestment in South Australia;
- development of exports and entry to overseas markets;
- research, development and commercialisation of technology; and
- implementing a strong information technology base.

To this end, the Corporation shall:

- 4.1. encourage and facilitate regionally based economic activities based on forestry and other industries;
- 4.2. support regional resource protection initiatives and programs;
- 4.3. support the concept of environmental sustainability which assists in the protection of natural assets and market accessibility; and
- 4.4. support cooperative research activities within the forestry industry.

#### 5. GOVERNMENT POLICIES

- 5.1. In pursuing the strategic objectives in the context of the Government's directions, and undertaking its functions and exercising its powers, the Corporation shall act in accordance with the Government's:
  - 5.1.1. governance framework for public corporations
  - 5.1.2. policies generally applying to its commercial agencies
  - 5.1.3. policies specifically applying to the Corporation.
- 5.2. The Corporation in developing its operating policies shall have regard to other Government strategies and policies, and the roles and responsibilities of other Government agencies.

#### PART 2: THE CORPORATION'S OPERATIONS

#### 6. COMMERCIAL OPERATIONS

6.1. General

For the purposes of the *Public Corporations Act 1993*, all operations of the Corporation are commercial operations, except for those operations referenced as non-commercial operations in Section 7.

### FORESTRYSA CHARTER CONTINUED

- 6.2. Scope of Operations
  - The Corporation's principal operations will be based in South Australia.
- 6.3. Subsidiaries, Joint Ventures and Other Arrangements
  With the approval of the Minister for Primary Industries and Regional Development and the Treasurer,

the Corporation may pursue commercial opportunities through subsidiaries, joint ventures or other appropriate arrangements, provided that the services delivered under the arrangements relate to forestry or ancillary services.

6.4. Investment Activities

The Corporation may invest:

- 6.4.1. in the development and continuation of the Corporation's business, consistent with this Charter and directly related to its legislative functions.
- 6.4.2. surplus funds so as to maximise the return in accordance with sound investment practices appropriate to the nature of the funds invested.

#### 7. NON-COMMERCIAL OPERATIONS

- 7.1. The Corporation's non-commercial operations, in terms of the *Public Corporations Act 1993*, are:
  - 7.1.1. Listed below:
    - i. Native forest management
    - ii. Community use of forests
    - iii. Forestry industry development
    - iv. Community fire protection and forest industry support activities
    - v. Other activities as directed by the Minister for Primary Industries and Regional Development
    - vi. Management of the Mid North forest reserves
  - 7.1.2. Subject to an agreement between the Corporation and a purchasing Minister.
  - 7.1.3. Agreed to be non-commercial by the Minister for Primary Industries and Regional Development and the Treasurer.
- 7.2. The Corporation is required to perform all non-commercial operations efficiently.
- 7.3. Non-commercial operations are to be costed and funded in accordance with arrangements determined by the Minister for Primary Industries and Regional Development and the Treasurer.

#### PART 3: FINANCIAL AND COMMERCIAL MANAGEMENT

#### 8. FINANCIAL AND COMMERCIAL MANAGEMENT

- 8.1. Performance Targets
  - The financial and commercial targets to be met by the Corporation shall be those set out in the annual Performance Statement.
- 8.2. Form and Content of Accounts and Financial Statements
  The Corporation must prepare financial statements based on Australian Accounting Standards,
  generally accepted accounting principles and practices, including the Financial Management Toolkit
  and other applicable instructions of the Treasurer issued under the *Public Finance and Audit Act 1987*.

### FORESTRYSA CHARTER CONTINUED

- 8.3. Accounting and Internal Auditing Systems and Practices
  The Corporation must establish and maintain:
  - 8.3.1. financial and accounting processes, practices and systems in accordance with appropriate standards of practice
  - 8.3.2. effective internal auditing of its operations in accordance with appropriate standards of practice and the *Public Corporations Act 1993*.
- 8.4. Reports on Operations

In addition to statutory reporting, the Corporation must provide the following reports to the ForestrySA Board, and therefore enable review by the Treasurer's Representative of:

- 8.4.1. Quarterly performance monitoring report, including Statement of Comprehensive Income, Statement of Financial Position, Capital Investment Statement and Statement of Cash Flows and a quarterly report detailing the Corporation's operations for year to date, inclusive of actual year to date performance against year to date budget and full year forecast against full year budget for revenue and expenditure items.
- 8.4.2. Other information as requested from time-to-time by the Minister for Primary Industries and Regional Development or the Treasurer.
- 8.4.3. Exception reports on any other information which in the opinion of the Board should be provided.
- 8.5. Asset Management
  - 8.5.1. The Corporation must develop Asset Management Plans reflecting prudent commercial practice.
  - 8.5.2. The Corporation shall consult other agencies and take account of any Government requirements in the disposal of surplus land (excluding easements) and buildings.
  - 8.5.3. The Corporation will undertake appropriate risk management actions.

#### 9. DATE OF OPERATION

This Charter comes into operation upon the signature of the Minister for Primary Industries and Regional Development and the Treasurer, and is binding on the Corporation.

### **PERFORMANCE TARGETS**

The ForestrySA Charter mandates that all financial and commercial targets to be met by the Corporation are set out in an annual Performance Statement.

ForestrySA's 2019-20 performance targets and outcomes are listed below:

	Performance targets 2019-20	Performance outcomes 2019-20
Equity Contribution Funding	\$nil	\$nil
Forest Assets Revaluation Increment	\$1.0m	\$9.145m
Notifiable Incidents - EPA	0	0
Notifiable Incidents - Work Health and Safety	0	0
Lost Time Injuries (ForestrySA staff)	0	1
Maintain Responsible Wood certification for the Mount Lofty Ranges forest estate	Yes	Yes
Area of Gazetted Native Forest Reserve covered by a Management Plan	100%	100%
Community fire protection - callout response rate in brigade zones	100%	100%

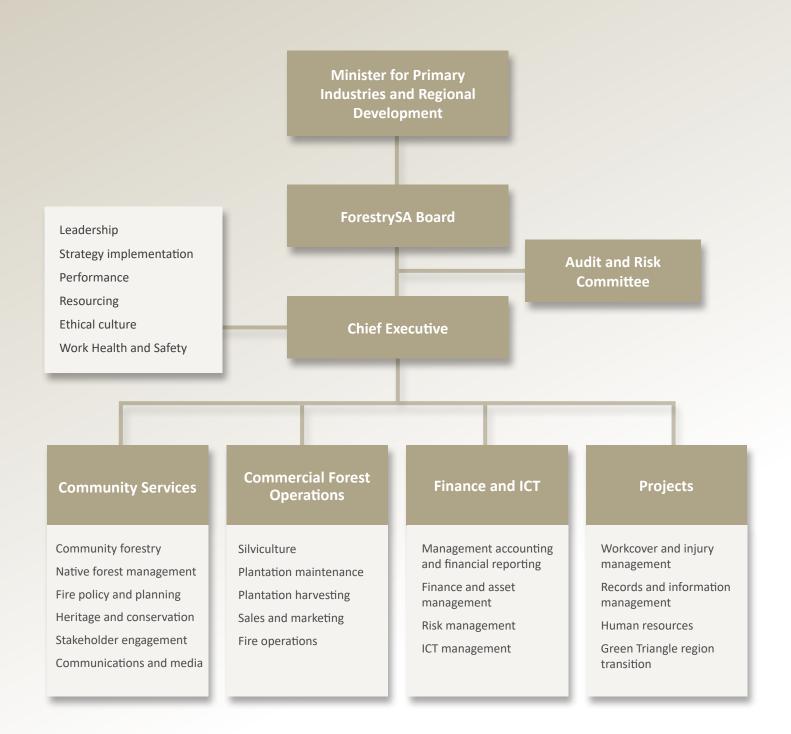
## **FORESTRYSA OBJECTIVES**

Each of the South Australian Government's key objectives is supported by one or more of the Strategic Pillars within the ForestrySA Strategic Plan.

Whole of Government key objective	ForestrySA's Strategic Pillars
MORE JOBS	<ul> <li>To develop and contribute to regional economic activity</li> <li>To foster and contribute to forest industry development</li> </ul>
LOWER COSTS	To optimise the commercial value of the forests
BETTER SERVICES	<ul> <li>To be recognised for responsible land stewardship</li> <li>To increase community engagement and recreational participation in South Australia's forests</li> <li>To protect our community and our assets</li> </ul>

### ORGANISATIONAL STRUCTURE

AT 30 JUNE 2020





### PLANTATION MANAGEMENT

ForestrySA's sustainable forest management program in the Mount Lofty Ranges involves management of approximately 10,500ha radiata pine plantation estate.

During 2019-20, commercial harvest operations have focussed on clearfall of mature radiata pine and mixed species plantations. This has included on-time and delayed first thinning of selected plantations and follow-up salvage of fire-affected plantation as part of the Cudlee Creek Fire Recovery Program.

Average rainfall conditions were experienced across most of the Mount Lofty Ranges during the year, with the period combining an exceptionally dry winter to early summer, followed by a wetter than average lead up to winter.

A total of 423ha of radiata pine plantation was planted in 2019-20."

Low levels of 2018 plantation refill were also carried out.

Early dry summer conditions negatively impacted tree survival within 2019 plantations at Mount Crawford, however overall tree survival across the Mount Lofty Ranges was assisted by late summer rainfall and averaged 91%.

General weed control in plantation areas allowed for optimal establishment practice and management of local stakeholder concerns.

A ground-based tractor spraying program within plantation areas was reintroduced to treat application buffer zones located next to residential properties.

A total of 105ha of radiata pine plantation was affected by fire during 2019-20, following several incidents in and around forest reserves during the relatively short but intense fire danger period. Replanting of pine forest destroyed by the 2019 Cudlee Creek bushfire will begin in 2021.

Localised young age plantation instability issues were also experienced, however significantly less so than in the previous two-year period.

ForestrySA's integrated approach to noxious weed control continued to deliver reasonable outcomes within both plantation and native forest areas during 2019-20. Targeted weed species included cape broom, gorse, boneseed, blackberry and pine wildings.

ForestrySA's forest management system remains certified to Responsible Wood's Australian Standard for Sustainable Forest Management.

This ensures protection of Indigenous, heritage, social and environmental values during commercial harvesting, plantation establishment and maintenance operations.

# **FOREST AREA STATISTICS (ha)**

	Standing	Natural Features Estate			
ForestrySA land	commercial plantation	Proclaimed Native Forest Reserves	Natural features	Other <sup>3</sup>	Proclaimed Forest Reserve
Mount Lofty Ranges	10,120 <sup>1</sup>	3,996	2,427	4,057	20,599
Mid North	0	0	896	1,434	6,558 <sup>2</sup>
Green Triangle	43	12,059	384	288	12,773
TOTAL	10,163	16,055	3,706	5,779	39,930

<sup>&</sup>lt;sup>1</sup> Mount Lofty Ranges commercial plantation includes 896ha managed by ForestrySA as commercial forestry which is located upon SA Water land.

### PLANNING AND PRODUCTION

Strong progress was made during 2019-20 to transition ForestrySA's internal growth and yield prediction systems towards a more industry-standard approach.

A features inventory, identifying product types as well as volumes, was undertaken in 2019-20 to supplement earlier work from 2017. Successive annual investment is beginning to increase accuracy and confidence in yield predictions, enabling ForestrySA to optimise woodflow and commercial outcomes while maintaining a key focus on servicing local customers.

Log production focused on efforts to retire older, less productive plantations within the Mount Crawford and Second Valley Forest Reserves, and transition to shorter plantation rotations. Managing rotation lengths and increasing age class diversity (average plantation ages) is seen as an important part of inherent fire risk reduction, and will continue for several more years. This is particularly important in long-term recovery from past and recent fire events across the Mount Crawford Forest Reserve.

Fire salvage operations following the 2019 Cudlee Creek bushfire delayed previous plans to increase plantation thinning during 2019-20, providing impetus to increase these operations further in coming years.

Clearfall of mixed species plantations continued at the Happy Valley Reservoir Reserve, with this overall project (to revert primarily to *Pinus radiata*) continuing at least until 2021. Similarly, several bluegum and mixed species pine plantations in the Green Triangle were successfully harvested in accordance with the cessation of ForestrySA's commercial activities in this region.

<sup>&</sup>lt;sup>2</sup> Mid North Proclaimed Forest Reserve includes 4,227ha under long term Crown Leases.

<sup>&</sup>lt;sup>3</sup> Includes all Proclaimed Forest Reserve that is not commercial plantation or Natural Feature Estate (i.e. depots, fire breaks)

## TOTAL LOG PRODUCT

	Domestic log sales, Mount Lofty Ranges		
Product	2019-20 (m³)	2018-19 (m³)	2017-18 (m³)
Sawlog	85,283	85,847	80,100
Industrial	42,403	34,458	46,314
Total log	127,686	120,305	126,414
Pulpwood	23,487	11,272	18,455
Preservation	9,084	7,591	7,550
Total pulp	32,571	18,863	26,005
Other log	57,934	16,862	-
TOTAL	218,191	156,030	152,420

### MARKET AND SALES

Demand for ForestrySA log products proved positive during 2019-20, with strong interest in premium log grades.

ForestrySA's commercial sales program continued to focus on fulfilling log supply commitments within the relatively small, yet dependent, local sawmill and wood processing industry.

Significant progress has been made to broaden ForestrySA's customer base, which has increased the depth and agility of the log sales program."

Volumes of log sales to local customers during 2019-20 were comparable with sales results recorded in 2018-19, however there was a lower proportion of high-value sawlog sales.

Sales activity improved considerably during the third and fourth quarters, compared with first and second, remaining buoyant throughout the COVID-19 pandemic to the end of the financial year.

Following the finalisation of ForestrySA's own bulk log export sales program in mid-2018, significant improvement to commercial performance of log sales has been achieved by selling surplus parcels of log through competitive sales processes.

This initiative has resulted in multiple exporters entering the local market and establishing log yards at Port Adelaide.

This development has introduced new opportunities for ForestrySA's log sales program and promoted competition within the local marketplace.

Over the course of the year, significant progress has also been made in overcoming long-standing historic impediments, including the sale of low quality log from plantation thinning and fire salvage operations.

This will allow ForestrySA to become more responsive to fluctuations in log sales within the local market and achieve on-time thinning of the estate.

### MARKET AND SALES CONTINUED

Overall, sawlog supply into the market was maintained at comparable levels to the last two periods.

Large diameter sawlog sales have remained strong, promoted by ForestrySA continuing to target the final felling of old mature plantations.

Industrial log and pulp log sales have increased, positively impacted by local sawmill demand for small industrial log and log export activity. Increased pulp log sales have ensured plantation thinning and improvement in wood utilisation continues to be realised during harvest.

Preservation log sales (for rails, posts, fence strainers) increased by around 20% from the previous two periods.

The local preservation market is expected to remain strong, as a result of fencing infrastructure losses in the 2019-20 bushfires.

This situation continues to present reasonable opportunity to continue targeting on-time first thinning of young age plantations, providing increased buoyancy can be realised with pulp log sales.

strong demand for large diameter sawlog

20% increase in preservation log sales

Additional log sales were realised as a direct result of the need to market fire-affected log products in the wake of the Cudlee Creek bushfire. This program remains ongoing, after salvage work was temporarily halted during winter 2020.

ForestrySA also sold bluegum log from two plantations in the Green Triangle, along with a small volume of mixed pine log to local exporters.

Residue log sales activity increased significantly during 2019-20, however sales opportunities reduced considerably following the Cudlee Creek bushfire and customers sourcing alternative product from the clearance of burnt trees across the fire-affected area. Further work is required to promote sales as a way of increasing revenue and reducing harvest waste.

Significant turbulence has been experienced within both the slowing Australian housing market and global log export market during the last 12 months.

The COVID-19 pandemic has caused concern regarding potential impact to log sales. However, to date, slowed competing exports, redirection of woodflow from Europe to alternative markets and housing market stimulus packages have enabled the local processing industry to continue supporting reasonable orders.

Customers are expressing modest optimism that the current market environment will remain unchanged.

Export log sales by Australian customers are also expected to continue, but could remain relatively subdued for up to two years.

### **FOREST HEALTH**

ForestrySA's forest health program involves concurrent management of commercial plantation and native forest.

As much of the native forest communities found within ForestrySA-managed Native Forest Reserves are underrepresented from a regional perspective, the importance of actively managing damage agents is paramount.

A pragmatic approach is taken to monitoring forest health and implementing associated work programs, with due consideration of a variety of damage including weeds, pests and diseases, wildfire, recreational access pressures, and rubbish dumping and other illegal activities.

Staff, contractors and volunteers all play important and varying roles in ensuring ForestrySA's forest health program remains effective.

The control of feral animals and weeds remains a high priority for ongoing management of both plantation and Native Forest Reserves. ForestrySA's feral animal control program recommenced in 2019 and has become increasingly active, resulting in the significant reduction of deer, goats and feral sheep. The Cudlee Creek forest was once again an area of heavy focus.

Noxious weed control was conducted in conservation and plantation areas at 83 locations, spanning 955ha."

Key focus areas have included controlling weed intrusions in the Cudlee Creek fire-affected area, asparagus weeds of significance and blackberry control across all Green Triangle Native Forest Reserves.

The effect of severe drought stress, driven by persistent below-average rainfall in recent years is evident within commercial plantation areas. This pressure is being mitigated by weed control programs, on-time thinning in mid-rotation plantations and clearfall of older, mature plantations.

Above average rainfall from early February 2020 across the Mount Lofty Ranges brought welcome relief, while below average rainfall has continued in the Green Triangle.

A fit-for-purpose sirex wood wasp (*Sirex noctillo*) inoculation program commitment has continued to control the pest across the Mount Lofty Ranges region. Despite very favourable conditions for Sirex population growth, no increase in infestation has been detected.

There remains no known giant pine scale (*Marchalina hellenica*) infestation on ForestrySA land. ForestrySA is working within an industry cooperative to respond to risks presented by the pest. In-house staff and contractor awareness training with insights provided by Biosecurity SA has been carried out within the past 12 months. Maintaining an effective inspection program and early detection are considered ForestrySA's best defences against infestation.

There was a notable increase in trespass with 4WD vehicles and motor bikes in 2019-20. Wood cutting and rubbish dumping within forest reserves remain long-standing problems. Despite active camera surveillance and regular forest ranger patrols in hot spots, significant activity continues.

### **FOREST RESEARCH**

Forest Research Mount Gambier continues to progress nationally significant projects for the benefit of the whole forest industry.

ForestrySA provides support through financial contributions from Community Services Obligation funding and collaboration in areas of interest, including:

- Scoping an automated forest fire detection and suppression framework.
- Solutions for the optimal use of dense, remotely acquired data by forest growers.
- Optimising the management of plantation, water and environmental assets.
- Development of best-practice fatigue management for the Australian forestry industry.

#### Other research trials of note:

- ForestrySA continues to work with other organisations to assist Spring Gully Foods with a Manuka honey trial site in Wirrabara Forest Reserve.
- In partnership with Tree Breeding Australia, ForestrySA is establishing a genetic gains trial in the Mount Crawford Forest with the objective of identifying progeny best suited to drier areas.
- A *Eucalyptus leucoxylon* seed source trial has been continued, aiming to determine its suitability for farm forestry application.

### FIRE MANAGEMENT

ForestrySA continued to play a key role in fire management on public lands during 2019-20, remaining an active participant in national and state fire management strategy, policy and initiatives to enhance public safety.

This included membership of the Australasian Fire and Emergency Services Authorities Council, the State Bushfire Coordination Committee and relevant Bushfire Management Committees.

ForestrySA maintained strong partnerships with the Forest Owners Conference and the Green Triangle Fire Alliance, supporting a cooperative approach to forest fire management across the South East of South Australia.

ForestrySA made a submission to the Independent Review of the South Australian 2019-20 Bushfire Season, with review recommendations applicable to ForestrySA identified for implementation in 2020-21.

This was followed by a comprehensive submission to the Royal Commission into National Natural Disaster Arrangements.

A fire tower network infrastructure assessment and maintenance plan was completed in early 2020, to identify safety and structural issues related to fire detection assets for forest industry and communities in the Green Triangle. Investigation of alternative fire detection strategies and technologies also began in partnership with industry and the University of South Australia.

ForestrySA continued to maintain forest management plans as a means of safeguarding commercial interests and fulfilling community protection obligations, incorporating clear risk mitigation measures for fire management and protection of forest and native forest reserves.

ForestrySA also contributed to a program of strategic fuel reduction and bushfire response on public and private land across South Australia.

All required industry standards for plantation maintenance and broader pre-season fire preparedness measures were implemented during 2019-20.

This included on-ground works, residue and prescribed burning for hazard management. Protection obligations extend to native vegetation and biodiversity conservation for continued sustainability within all forest reserves.

Residue and prescribed burns were conducted within plantation and native forests during 2019-20, reducing fuel loads across 309ha in the Mount Lofty Ranges and Green Triangle."

ForestrySA fire crews were available to the Country Fire Service to assist in bushfire response and other specialist activities in the event of a bushfire on public or private land. ForestrySA crews responded to 19 fires across the Mount Lofty Ranges, 11 of which were on ForestrySA land, and a further seven fires in the Green Triangle.

In the Green Triangle the largest fire of the season occurred within ForestrySA's Heath Native Forest Reserve during December 2019. The fire affected 240ha and was attended by staff for two weeks.

The largest fire of 2019-20 occurred at Cudlee Creek on 20 December 2019. ForestrySA personnel attended the fire ground for 12 days (on both private and public lands), while maintaining fire coverage across the Kuitpo and Mount Crawford forests. More than 102ha of ForestrySA plantation and 350ha of native bushland was affected, resulting in \$1m damage to plantation forest assets and infrastucture. The fire also resulted in closure of the popular Fox Creek Bike Park and Cudlee Creek Forest Trails.

In response to lessons from the year, ForestrySA's 2020-21 focus will be to develop capability and increase flexibility within the fuel management program. Recommendations from government reviews will also be implemented as they become available.

For more information regarding ForestrySA's response to fire during the year, download our Fire Danger Season Review document at www.forestrysa.com.au/fire.

### **COMMUNITY FORESTRY**

Performance measures	2019-20¹	2018-19
Forest visitors (recorded)	145,647	263,522
Permits issued	6,422	7,397
People covered by permits	25,020	59,934
Forest events	172	244
Ranger FTE delivered	5	6
Visitor enquiries (phone and email)	12,081 <sup>2</sup>	8,089
Groups actively engaged	26	26
Forest education programs supported	11	7
Community engagement hours recorded (approximate volunteer hours)	9,777	9,625
Area of watercourse and wetland buffer zones	122ha	126.7ha

<sup>&</sup>lt;sup>1</sup> 2019-20 figures are lower as a result of the 2019 bushfire events which affected the Cudlee Creek Forest Reserve and Fox Creek Bike Park, and government restrictions implemented in response to the COVID-19 pandemic. This resulted in cancellation of camping and accommodation bookings and large forest events such as Nature Play Forest Festival and Ghost Mushroom Lane.

The 2019-20 year was a mixed one for ForestrySA's Community Forestry team, with significant challenges faced as a result of the bushfire season, followed closely by 2020's COVID-19 pandemic. Despite this, ForestrySA Forest Reserves continue to be a valued community asset, perhaps more so now than ever before.

While formal statistics indicate a decline in total forest visitation numbers during 2019-20 (an estimated total of 145,647 visitors, down from 263,522 the previous year) likely as a result of the year's events, staff observations suggest the forests are more popular than ever.

ForestrySA forest reserves are alive with activity, forest carparks are regularly full and public demand for forest recreation permits, camping and accommodation have increased exponentially."

This highlights the importance of the natural forest environment for positive social and mental health and wellbeing, as well as for recreational activities, events, research and conservation.

Aligned with the increase in forest visitation during 2019-20 was a notable rise in trespass and other incidents, including illegal firewood collection, reports of aggressive dogs and unauthorised motor bike and 4WD access.

To address this activity in specific hot-spots, action plans were prepared and implemented in conjunction with neighbours, councils and other government agencies.

<sup>&</sup>lt;sup>2</sup> A notable increase in enquiries coincided with both the release of ForestrySA's online booking system and easing of government restrictions related to the COVID-19 pandemic.

### **COMMUNITY FORESTRY** CONTINUED

ForestrySA's online camping and accommodation booking and recreation permit systems went live in May 2020.

More than 25,000 people purchased permits for cave diving, adventure caving, fossicking, horse riding, events and camping during the year. While the onset of COVID-19 forced the closure of picnic grounds, camping and accommodation venues in April 2020, these sites were very quickly booked out upon the easing of South Australian restrictions in mid-May.

ForestrySA's non-regulated recreational fee structure was reviewed for the first time in more than 20 years, with some new and increased fees subsequently introduced in June 2020. A review of the *Forestry Act 1950* Forest Regulations 2013 was undertaken and amendments to the regulations and fees for camping, horse riding, fossicking and other activities proposed for consultation in early 2020-21.

In late 2019, as part of an international forest management mentoring and study program, ForestrySA hosted a forester from Nepal. ForestrySA also hosted the Duke of Edinburgh Awards' 60th anniversary celebration in Mount Crawford and presented at the Primary Industries Education Foundation Australian Food and Fibre Roadshow.

In November 2019, ForestrySA became a member of the inter-agency "Opening up our Reservoirs" Taskforce. The project attracted \$25,000 to upgrade trail access through Mount Crawford Forest Reserve for visitors to explore and enjoy as part of the northern trails network.

As part of the government's Apiary Taskforce, ForestrySA led the way as the first public land manager to pilot the feasibility of commercial beekeeping on public land. The pilot will assess the compatibility of managed honeybees with forest and visitor management, providing significant long-term benefit for the apiary industry and the state.

An infrastructure upgrade plan was prepared for the extremely popular Ghost Mushroom Lane attraction in the Green Triangle, including plans for private operators to run tours. Unfortunately the COVID-19 pandemic forced cancellation of the annual event, with plans to reopen bigger and better in 2021.

An infrastructure review led to upgrades at several cave diving sites, Native Forest Reserves and Lake Edward in the Green Triangle. Infrastructure initiatives in the Mount Lofty Ranges included new campground signage and upgrades at the Kuitpo Forest Information Centre, Tinjella Hut and The Old School House.

Aligned with its marketing strategy, ForestrySA made significant website updates and launched an official Facebook page in May 2020, to enhance community engagement, education and awareness of commercial and community forestry.

May 2020

Online camping, accommodation and permit booking system launched

25,000

forest recreation permits purchased

**Facebook** 

official ForestrySA account launched for improved communication and engagement

### **COMMUNITY FORESTRY** CONTINUED

In May 2020, ForestrySA joined the government's Nature-based Tourism Co-investment Fund, a grant program designed to assist eligible businesses and organisations partner with the State Government to deliver sustainable, quality tourism experiences in South Australia. Several business proponents subsequently approached ForestrySA about potential opportunities, which will be progressed in 2020-21.

2019-20 saw a focus on encouraging and facilitating sustainable nature-based activities and initiatives in South Australia's forest reserves, contributing to regional and local communities through the creation of sustainable economic opportunities."

Native forest management prioritised cooperative multi-agency control programs, endangered species conservation, biodiversity corridors in partnership with schools and non-government conservation organisations, and ecological research.

Exceptional results were achieved through a multiagency operation with Department of Environment and Water and SA Water to remove more than 950 feral goats from the Cudlee Creek area following the December 2019 bushfire, highlighting the benefit of a cooperative approach to pest animal control.

Solid gains were made in biodiversity and threatened species conservation, with enhancement of the population and known range of the nationally-endangered orchid, *Thelymitra cyanapicata*, at Kuitpo Forest, and *Olearia pannosa* plantings in the Green Triangle. The southern bent-wing bat and Mount Lofty Ranges southern-brown bandicoot recovery programs also made positive progress.

ForestrySA continued its long history of supporting ecological research in Native Forest Reserves across the Mount Lofty Ranges and Green Triangle.

This includes work which will contribute to an understanding of how different flora and fauna species respond to fire across the landscape and the ecology and distribution of threatened shrub and woodland birds.

Despite COVID-19 restrictions, ForestrySA's schools program continued to deliver positive biodiversity conservation outcomes in the Green Triangle and for specific initiatives such as the red-tailed black-cockatoo recovery program.

It is essential that ForestrySA continues to work in partnership with researchers, community groups, industry and government to ensure conservation and long-term sustainability of Native Forest Reserves within the broader landscape, as well as the diversity of habitats and species contained within.

Community use of forest reserves remained strong during 2019-20 with solid progress made in the area of community engagement, partnerships and programs such as Friends of the Forest.

More than 9,700 volunteer hours were contributed and significant recreation, conservation and heritage outcomes were delivered.

Volunteer groups also began development of new riding trail networks at Mount Gawler, Kuitpo and Second Valley in the Mount Lofty Ranges, and Mount Burr and Cave Range in the Green Triangle.

9,700
volunteer hours
recorded

### **COMMUNITY FORESTRY** CONTINUED

Following the 2019 Cudlee Creek bushfire, a fire recovery plan was developed to facilitate salvage of affected pine plantation and recovery of native vegetation in the Cudlee Creek Forest Reserve and the Fox Creek Bike Park. The park features 48km of multi-use trails, attracting 20,000 visitors a year and is a key destination for mountain bike enthusiasts from across Australia.

Hundreds of volunteer hours were contributed by local mountain bike club members to clear and re-establish trails. The park will remain closed until after pine salvage operations are completed around December 2020.

ForestrySA also contributed as a member of the Cudlee Creek Local Recovery Committee and State Recovery Coordination Committee, championing the restoration and re-establishment of the area's commercial and recreational values and its representation in the Cudlee Creek Recovery Plan. This plan will frame the park as a state hub and national destination, bringing much-needed economic benefit to the surrounding fire-affected community.

A total of \$40,000 in grant funds received by local mountain bike groups was put towards development of the Cudlee Creek Forest Trails Fire Recovery Strategy, a trail audit and dangerous tree removal. The trail strategy was overseen by a steering committee of state and local government representatives and a reference group comprised of representatives from mountain bike and other recreation groups.

A yourSAy community engagement survey to help develop the recovery strategy received over 700 individual responses, a clear indication of the social and economic importance of the site.

In February 2020, ForestrySA partnered with Yankalilla Council to develop the Trails Strategic Action Plan. The plan focused on recreational opportunities and infrastructure

development within the Second Valley Forest Reserve and includes the popular Ingalalla Falls picnic area, which was visited by more than 34,000 people in 2019-20.

Plans for multi-use and specific trails were also identified for delivery, beginning in 2020-21.

ForestrySA began a partnership with Naracoorte Lucindale Council for a multi-use trail connecting the Naracoorte township with Naracoorte Caves, via Cave Range Native Forest Reserve. Negotiations also began with a Mount Burr trails group to establish a trails network near the town.

Although many events were postponed towards the end of the year due to COVID-19 restrictions, ForestrySA was able to host 172 events and activities during 2019-20. These included trail bike events, the Adelaide Hills Car Rally and 2019 Pines Enduro motor rally in the Green Triangle.

Filming of the Mortal Kombat blockbuster film from October 2019 transformed parts of the Mount Crawford Forest Reserve into a busy movie set, with approximately 350 people on site each day.

700
Cudlee Creek community survey responses received

172
events on ForestrySA land

State Emergency Service, Country Fire Service, South Australia Police and the military continue to regularly use forest tracks and trails to conduct driver, orienteering and rescue training.

For more detailed information about the many community activities and events held on ForestrySA land during 2019-20, download our Community Forest Management Annual Report from www.forestrysa.com.au/publications.

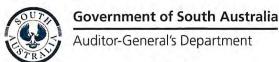
### SUPPORTING OUR COMMUNITIES

### PROUDLY SUPPORTING COMMUNITY ENDEAVOURS

ForestrySA maintains an annual sponsorship program, supporting local communities where we do business in the Mount Lofty Ranges and Green Triangle, as they use our forest reserves for recreation and educational outcomes.

Recipient	Event / cause
Glencoe Football Netball Club	Sponsorship of the club which is in close proximity to popular recreational areas Ghost Mushroom Lane, the Honan Mint Trails and Lake Edward.
Christmas Party for Special Children 2019	Sponsorship for two special needs children to attend the annual Christmas party at the Adelaide Zoo.
Native Orchid Society	Sponsorship of two field workshops at Mount Crawford, involving plant identification and the use of apps for citizen science recording of native flora and fauna species.
South Australian Ranger Association	Sponsorship to assist facilitation of an in-forest fundraising event, in support of the Thin Green Line Foundation.
Adelaide Mountain Bike Club	Provision of tools for trail building and maintenance work in forest reserves.
Gravity Enduro Mountain Bike Club	Provision of tools for trail building and maintenance work in forest reserves.
Inside Line Mountain Bike Club	Provision of tools for trail building and maintenance work in forest reserves.
Tenison Woods College, Grant High School, Millicent High School and Glenburnie Primary School	Provision of tools for trail maintenance and revegetation materials, and equipment for revegetation planting within a forest reserve.
Science and Engineering Challenge 2020	Donation to support the STEM (Science, Technology, Engineering and Mathematics) event held in Mount Gambier and delivered to South Australian high schools in the Limestone Coast.  The event was cancelled due to COVID-19 and sponsorship retained for use in 2021.
Adelaide International 3 Day Event 2019	Donation of natural forest products for course construction and decoration.





Our ref: A20/258

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25 September 2020

Ms J Roache Chair South Australian Forestry Corporation Private Mail Bag 2 MEADOWS SA 5201

Dear Ms Roache

### Audit of South Australian Forestry Corporation for the year to 30 June 2020

We have completed the audit of your accounts for the year ended 30 June 2020. Two key outcomes from the audit are the:

- 1 Independent Auditor's Report on your agency's financial report
- 2 audit management letter recommending you address identified weaknesses.

#### 1 Independent Auditor's Report

We are returning the financial statements for South Australian Forestry Corporation, with the Independent Auditor's Report. This report is unmodified. The *Public Finance and Audit Act 1987* allows me to publish documents on the Auditor-General's Department website. The enclosed Independent Auditor's Report and accompanying financial statements will be published on that website on Tuesday, 13 October 2020.

#### 2 Audit management letter

During the year, we sent you an audit management letter detailing the weaknesses we noted and improvements we considered you need to make.

We have received responses to our letter and will follow these up in the 2020-21 audit.

#### What the audit covered

Our audits meet statutory audit responsibilities under the *Public Finance and Audit Act 1987* and the Australian Auditing Standards.

Our audit covered the principal areas of the agency's financial operations and included test reviews of systems, processes, internal controls and financial transactions. Some notable areas were:

- sales of timber products
- expenditure resulting from the harvest and transport of timber products
- fixed assets
- payroll and other general expenditure
- general ledger.

I would like to thank the staff and management of your agency for their assistance during this year's audit.

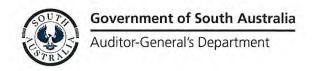
Yours sincerely

Andrew Richardson

**Auditor-General** 

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#### INDEPENDENT AUDITOR'S REPORT



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#### To the Chair of the Board South Australian Forestry Corporation

#### **Opinion**

I have audited the financial report of South Australian Forestry Corporation for the financial year ended 30 June 2020.

In my opinion, the accompanying financial report gives a true and fair view of the financial position of the South Australian Forestry Corporation as at 30 June 2020, its financial performance and its cash flows for the year then ended in accordance with relevant Treasurer's Instructions issued under the provisions of the *Public Finance and Audit Act 1987* and Australian Accounting Standards.

#### The financial report comprises:

- a Statement of Comprehensive Income for the year ended 30 June 2020
- a Statement of Financial Position as at 30 June 2020
- a Statement of Changes in Equity for the year ended 30 June 2020
- a Statement of Cash Flows for the year ended 30 June 2020
- notes, comprising significant accounting policies and other explanatory information
- a Certificate from the Chair, Chief Executive and the Manager Finance and ICT.

#### **Basis for opinion**

I conducted the audit in accordance with the *Public Finance and Audit Act 1987* and Australian Auditing Standards. My responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial report' section of my report. I am independent of the South Australian Forestry Corporation. The *Public Finance and Audit Act 1987* establishes the independence of the Auditor-General. In conducting the audit, the relevant ethical requirements of APES 110 *Code of Ethics for Professional Accountants* (including Independence Standards) have been met.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

### Responsibilities of the Chief Executive and members of the Board for the financial report

The Chief Executive is responsible for the preparation of the financial report that gives a true and fair view in accordance with relevant Treasurer's Instructions issued under the provisions of the *Public Finance and Audit Act 1987* and Australian Accounting Standards, and for such internal control as management determines is necessary to enable the preparation of the financial report that gives a true and fair view and that is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the Chief Executive is responsible for assessing the entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the entity is to be liquidated or to cease operations, or has no realistic alternative but to do so.

The members of the Board are responsible for overseeing the entity's financial reporting process.

#### Auditor's responsibilities for the audit of the financial report

As required by section 31(1)(b) of the *Public Finance and Audit Act 1987* and section 32(4) of the *Public Corporations Act 1993*, I have audited the financial report of the South Australian Forestry Corporation for the financial year ended 30 June 2020.

My objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with Australian Auditing Standards, I exercise professional judgement and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial report, whether
  due to fraud or error, design and perform audit procedures responsive to those risks, and
  obtain audit evidence that is sufficient and appropriate to provide a basis for my
  opinion. The risk of not detecting a material misstatement resulting from fraud is higher
  than for one resulting from error, as fraud may involve collusion, forgery, intentional
  omissions, misrepresentations, or the override of internal control
- obtain an understanding of internal control relevant to the audit in order to design audit
  procedures that are appropriate in the circumstances, but not for the purpose of
  expressing an opinion on the effectiveness of the South Australian Forestry
  Corporation's internal control

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Chief Executive
- conclude on the appropriateness of the entity's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern
- evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

My report refers only to the financial report described above and does not provide assurance over the integrity of electronic publication by the entity on any website nor does it provide an opinion on other information which may have been hyperlinked to/from the report.

I communicate with the Chief Executive and members of the Board about, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during the audit.

Andrew Richardson

Auditor-General

25 September 2020

## South Australian Forestry Corporation

Financial Statements for the year ended 30 June 2020

1

## SOUTH AUSTRALIAN FORESTRY CORPORATION

## Certification of the 2019/20 Financial Statements

We certify that the attached general purpose financial statements of the South Australian Forestry Corporation (ForestrySA):

- comply with the relevant Treasurer's Instructions issued under section 41 of the *Public Finance and Audit Act 1987*, and relevant Australian accounting standards;
- are in accordance with the accounts and records of ForestrySA; and
- present a true and fair view of the financial position of ForestrySA as at 30 June 2020 and the results of its operations and cash flows for the financial year.

We certify that the internal controls employed by ForestrySA over its financial reporting and its preparation of the general purpose financial statements have been effective throughout the reporting period and there are reasonable grounds to believe ForestrySA will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Board on 23 September 2020.

Julian Speed

**CHIEF EXECUTIVE** 

Upeed

SOUTH AUSTRALIAN FORESTRY CORPORATION

Sara Ware

MANAGER FINANCE AND ICT

SOUTH AUSTRALIAN FORESTRY CORPORATION

23 September 2020 23 September 2020

June Roache

CHAIR

SOUTH AUSTRALIAN FORESTRY CORPORATION

23 September 2020

## South Australian Forestry Corporation Statement of Comprehensive Income

for the year ended 30 June 2020

		2020	2019
	Note	\$'000	\$'000
Income			
Sales - timber products	4.1	12,431	13,514
Revenues from SA Government	4.2	4,628	4,540
Interest	4.3	213	328
Other income	4.4	1,296	944
Net gain from the disposal of property, plant and equipment	4.5	5	
Total income	-	18,573	19,326
<u>Expenses</u>			
Employee benefits	2.3	4,210	4,632
Contractors		9,332	10,603
Depreciation and amortisation	3.2	1,243	930
Materials		418	544
Equipment and vehicle costs		490	995
Council rates		292	296
Other expenses	3.1	3,416	4,522
Net loss from the disposal of property, plant and equipment	4.5	-	128
Borrowing costs	3.3	23	
Total expenses	_	19,424	22,650
Trading profit/(loss) before revaluation of non-current assets		(851)	(3,324)
Net change in value of forest assets	5.5	9,145	2,113
Net revaluation decrement of other non-current assets	5.2	-	(3,512)
Profit/(loss) before income tax equivalent		8,294	(4,723)
Income tax equivalent expense		-	- 4
Profit/(loss) after income tax equivalent		8,294	(4,723)
Other Comprehensive Income			
Items that will not be reclassified to profit and loss			
Changes in land revaluation surplus Changes in property, plant and equipment asset revaluation	5.2/5.7	6,665	(3)
surplus	5.2	-	1,433
Total other comprehensive income		6,665	1,430
Total comprehensive result	_	14,959	(3,293)

The accompanying notes form part of these financial statements. The net result and total comprehensive result are attributable to the SA Government as owner.

# South Australian Forestry Corporation Statement of Financial Position

as at 30 June 2020

	Note	2020	2019
		\$'000	\$'000
<u>Current assets</u>			
Cash and cash equivalents	6.1	20,005	18,194
Receivables	6.2	4,607	6,425
Inventories	5.6	199	160
Forest assets	5.5	6,323	3,559
Assets classified as held for sale	5.7 _	7,073	6,237
Total current assets	_	38,207	34,575
Non-current assets			
Receivables	6.2		2,899
Forest assets	5.5	48,425	42,044
Property, plant and equipment	5.1	49,291	43,691
Intangible assets	5.4	93	22
Total non-current assets		97,809	88,656
Total assets	-	136,016	123,231
Current liabilities	_		
Payables	<i>7</i> .1	1,531	1,507
Financial liabilities	7.2	141	
Contract liabilities	7.3	2,899	2,899
Employee benefits	2.4	493	455
Other provisions	7.4	108	104
Other liabilities	7.5	405	365
Total current liabilities	_	5,577	5,330
Non-current liabilities	-		
Payables	7.1	92	96
Financial liabilities	7.2	513	
Contract liabilities	7.3	- C-	2,899
Employee benefits	2.4	601	633
Other provisions	7.4	393	162
Other liabilities	7.5	5,135	5,365
Total non-current liabilities	-	6,734	9,155
Total liabilities	_	12,311	14,485
Net Assets	_	123,705	108,746
Equity			
Retained earnings		27,117	27,968
Other reserves		96,588	80,778
Total Equity	-	123,705	108,746

The accompanying notes form part of these financial statements. The total equity is attributable to the SA Government as owner.

# South Australian Forestry Corporation Statement of Changes in Equity

for the year ended 30 June 2020

	Note	Asset revaluation surplus	Forest Assets reserve	Retained earnings	Total Equity
		\$'000	\$'000	\$'000	\$'000
Balance at 1 July 2018		38,737	38,513	34,789	112,039
Net result for 2018-19					
Gain/loss on revaluation of land	5.2	(3)	-		(3)
Gain/loss on revaluation of plant and equipment	5.2	1,433		- 12	1,433
Profit/(loss) for the period				(4,723)	(4,723)
Total comprehensive result for 2018-19		1,430	á	(4,723)	(3,293)
Transfer between equity components		(15)	2,113	(2,098)	
Balance at 30 June 2019		40,152	40,626	27,968	108,746
Net result for 2019-20			1111		
Gain/loss on revaluation of land	5.2/5.7	6,665	-6		6,665
Profit/(loss) for the period		-	-	8,294	8,294
Total comprehensive result for 2019-20		6,665		8,294	14,959
Transfer between equity components		4 4 6	9,145	(9,145)	-
Balance at 30 June 2020		46,817	49,771	27,117	123,705

The accompanying notes form part of these financial statements. All changes in equity are attributable to the SA Government as owner.

# South Australian Forestry Corporation Statement of Cash Flows

for the year ended 30 June 2020

	Note	2020 \$'000	201 <i>9</i> \$'000
Cash flows from operating activities			
Cash inflows			
Receipts from customers		17,199	25,352
Receipts from SA Government		4,628	3,401
Interest received		193	323
GST recovered from the ATO		(527)	(394)
Cash generated from operations		21,493	28,682
Cash outflows			
Employee benefits payments		(4,204)	(4,552)
Payments for supplies and services		(15,029)	(19,007)
Interest paid	_	(23)	-
Cash used in operations	_	(19,256)	(23,559)
Net cash provided by/(used in) operating activities	8.2	2,237	5,123
Cash flows from investing activities			
<u>Cash inflows</u>			
Proceeds from the sale of property, plant and equipment	5	5	88
Cash generated from investing activities		5	88
<u>Cash outflows</u>			
Purchase of property, plant and equipment		(188)	(724)
Purchase of intangible assets	_	(93)	-
Cash used in investing activities	1	(281)	(724)
Net cash provided by/(used in) investing activities		(276)	(636)
Cash flows from financing activities			
Cash outflows			
Repayment of leases	_	(150)	
Cash used in financing activities		(150)	
Net cash provided by/(used in) financing activities		(150)	
Net increase/(decrease) in cash and cash equivalents		1,811	4,487
Cash and cash equivalents at the beginning of the period		18,194	13,707
Cash and cash equivalents at the end of the period	8.2	20,005	18,194

The accompanying notes form part of these financial statements.

South Australian Forestry Corporation Financial Statements 30 June 2020

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## 1. About the South Australian Forestry Corporation

The South Australian Forestry Corporation (ForestrySA) was established under the *South Australian Forestry Corporation Act 2000* on 1 January 2001. ForestrySA is subject to the provisions of the *Public Corporations Act 1993*.

Key responsibilities of ForestrySA are to:

- Manage state-owned plantation forests for commercial production in line with best practice standards for forestry operations and environmental management;
- Undertake directly, or with industry partners, and, where appropriate, commercialise forestry related research for the benefit of the Corporation and the State;
- Maximise the value of the Corporation whilst achieving other key requirements of government;
- Encourage and facilitate regionally based economic activities based on forestry and other industries;
- Support regional resource protection initiatives and programs;
- Support the concept of environmental sustainability which assists in the protection of natural assets and market accessibility; and
- Support cooperative research activities within the forestry industry.

#### Green Triangle agency arrangement

The South Australian Government retains obligations in the Green Triangle region as stipulated under the Operations Deed related to the South Australian Plantation Lease Agreement with OneFortyOne Plantations Pty Ltd (OFO). These include community forestry and fire protection activities performed by ForestrySA on behalf of government under a Memorandum of Administrative Arrangement for delivery of Community Service Obligations.

#### 1.1. Basis of preparation

The financial statements are general purpose financial statements prepared in compliance with:

- section 23 of the Public Finance and Audit Act 1987;
- Treasurer's Instructions and Accounting Policy Statements issued by the Treasurer under the Public Finance and Audit Act 1987; and
- relevant Australian Accounting Standards.

For the 2019-20 financial statements ForestrySA adopted AASB 16 - Leases. Further information is provided in note 9.

The financial statements are prepared based on a 12 month reporting period and presented in Australian currency. The historical cost convention is used unless a different measurement basis is specifically disclosed in the note associated with the item measured.

Income, expenses and assets are recognised net of the amount of GST except:

- when the GST incurred on a purchase of goods or services is not recoverable from the Australian Taxation Office, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item applicable; and
- receivables and payables, which are stated with the amount of GST included.

Assets and liabilities that are to be sold, consumed or realised as part of the normal operating cycle have been classified as current assets or current liabilities. All other assets and liabilities are classified as non-current.

8 South Australian Forestry Corporation Financial Statements 30 June 2020 Where asset and liability line items combine amounts expected to be realised within 12 months and more than 12 months, ForestrySA has separately disclosed the amounts expected to be recovered or settled after more than 12 months.

## 1.2. Segment Reporting

For management purposes ForestrySA is organised into two segments. The reportable segments are:

- Commercial: plantation operations, establishment activities and all overheads.
- Non-commercial: operations performed for the South Australian Government under ForestrySA's Charter.

## South Australian Forestry Corporation Statement of Comprehensive Income by Operating Segment

for the year ended 30 June 2020

	Commo	ercial	Non-Com	mercial	Total	al
	2020	2019	2020	2019	2020	2019
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Income		777				
Sales - timber products	12,431	13,514	5.0	-	12,431	13,514
Revenues from SA Government		-	4,628	4,540	4,628	4,540
Interest	213	328	. 1	4.2	213	328
Other income Net gain from the disposal of property,	1,296	708	9	236	1,296	944
plant and equipment	5	2 . 2 . 2	3.122		5	
Total income	13,945	14,550	4,628	4,776	18,573	19,326
Expenses					Q.	
Employee benefits	2,305	2,825	1,905	1,807	4,210	4,632
Contractors	8,104	9,559	1,228	1,044	9,332	10,603
Depreciation and amortisation	773	668	470	262	1,243	930
Materials	342	461	76	83	418	544
Equipment and vehicle costs	93	508	397	487	490	995
Council rates	292	286	-	10	292	296
Other expenses Net loss from the disposal of property, plant and equipment	2,401	3,353 45	1,015	1,169	3,416	4,522 128
Borrowing costs	2		21	-	23	120
Total expenses	14,312	17,705	5,112	4,945	19,424	22,650
Net result				1, 3,47	77.573	
Net change in value of forest assets	(367) 9,145	(3,155)	(484)	(169)	(851) 9,145	(3,324) 2,113
Net revaluation decrement of other non- current assets	-	(2,721)		(791)	-	(3,512)
Net result before income tax equivalent	8,778	(3,763)	(484)	(960)	8,294	(4,723)
Income tax equivalent expense	-					5
Net result after income tax equivalent	8,778	(3,763)	(484)	(960)	8,294	(4,723)
Other Comprehensive Income Items that will not be reclassified to net result					-1	
Changes in land revaluation surplus Changes in property, plant and	6,665	246	. 9	(249)	6,665	(3)
equipment asset revaluation surplus		233		1,200	3.432	1,433
Total other comprehensive income	6,665	479	-	951	6,665	1,430
Total comprehensive result	15,443	(3,284)	(484)	(9)	14,959	(3,293)

## 1.3. Impact of COVID-19 pandemic

The COVID-19 pandemic has had little impact on the operations of ForestrySA despite industry concerns regarding ongoing market demand and logistics continuity.

## 1.4. Significant transactions with government related entities

Significant transactions with the SA Government are identifiable throughout this financial report. In addition:

- ForestrySA receives funding from the SA Government for the provision of certain noncommercial operations. These are the community service obligations (CSOs):
  - 1. Native forest management,
  - 2. Community use of forests,
  - 3. Forest industry research and development, and
  - 4. Community fire protection and forest industry support activities.
- Lease payments relate to vehicles supplied by Fleet SA.

## 2. Board, committees and employees

## 2.1. Key management personnel

Key management personnel of ForestrySA include the Minister, Board, committee members, the Chief Executive and the members of the Leadership Team.

Total compensation for key management personnel was \$936,000 in 2019-20 and \$1,043,000 in 2018-19.

The compensation disclosed in this note excludes salaries and other benefits the Minister for Primary Industries and Regional Development receives. The Minister's remuneration and allowances are set by the *Parliamentary Remuneration Act 1990* and the Remuneration Tribunal of SA respectively and are payable from the Consolidated Account (via the Department of Treasury and Finance) under section 6 the *Parliamentary Remuneration Act 1990*.

	2020 \$'000	2019 \$'000
Compensation		
Salaries and other short term employee benefits	803	870
Post-employment benefits	74	99
Termination Benefits	59	74
Total	936	1,043

#### Transactions with key management personnel and other related parties

There have been no such transactions in the financial year (2019: nil).

#### 2.2. Board and committee members

Members during the 2019-20 financial year were:

<u>Board</u>	<b>Audit and Risk Committee</b>
J. Roache (Chair)	T. Stollznow (Chair)
T. Stollznow	J. Roache
G. Pelton *	G. Pelton *

#### Board and committee remuneration

	2020 \$ '000	2019 \$ '000
The number of governing board members whose remuneration received or receivable falls within the following bands:		
\$0 - \$19,999*	1	5
\$40,000 - \$59,999	2	1
Total number of members	3	6

<sup>\*</sup>In accordance with the Department of Premier and Cabinet Circular No. 016, government employees did not receive any remuneration for board/committee duties during the financial year.

The total remuneration received and receivable by those governing board members was \$98,000 (2019: \$77,000) which includes fringe benefits and superannuation contributions.

## 2.3. Employee benefits expenses

	2020 \$ '000	2019 \$ '000
Salaries and wages	3,166	3,446
Long service leave	57	134
Skills and experience retention leave	10	8
Annual leave	248	277
Employment on-costs - superannuation	558	583
Employment on-costs - other	171	184
Total employee benefits expenses	4,210	4,632

#### Employment on-costs - superannuation

The superannuation employment on-cost charge represents ForestrySA's contributions to superannuation plans in respect of current services of current employees.

#### Executive remuneration

	2020 No	2019 No
The number of employees whose remuneration received or receivable falls within the following bands:		
\$151,000 to \$154,000 *	(-)	1
\$154,001 to \$174,000	2	1
\$234,001 to \$254,000	Į.	1
\$254,001 to \$274,000	1	-
Total number of employees	3	3

<sup>\*</sup> This band has been included for the purposes of reporting comparative figures based on the executive base level remuneration rate for 2019.

The total remuneration received by executive employees for the year was \$0.583 million (2019: \$0.561 million).

The table includes all employees who received remuneration equal to or greater than the base executive remuneration level during the year. Remuneration of employees reflects all costs of employment including salaries and wages, payments in lieu of leave, superannuation contributions, salary sacrifice benefits and fringe benefits and any fringe benefits tax paid or payable in respect of those benefits.

## 2.4. Employee benefits liability

	2020 \$'000	2019
Current	\$1000	\$'000
Accrued salaries and wages	114	92
Annual leave	234	201
Long service leave	133	146
Skills and experience retention leave	12	16
Total current employee benefits	493	455
Non-current		
Long service leave	601	633
Total non-current employee benefits	601	633
Total employee benefits	1,094	1,088

Employee benefits accrue as a result of services provided up to the reporting date that remain unpaid. Long-term employee benefits are measured at present value and short-term employee benefits are measured at nominal amounts.

#### Salaries and wages, annual leave, skills and experience retention leave (SERL) and sick leave

The liability for salary and wages is measured as the amount unpaid at the reporting date at remuneration rates current at the reporting date.

The annual leave liability and the SERL liability in full is expected to be payable within 12 months and is measured at the undiscounted amount expected to be paid.

No provision has been made for sick leave as all sick leave is non-vesting and the average sick leave taken in future years by employees is estimated to be less than the annual entitlement for sick leave.

#### Long service leave

The liability for long service leave is measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method. Details about the measurement of long service leave liability is provided at note 11.1.

## 3. Expenses

Employee benefits expenses are disclosed in note 2.3.

## 3.1. Other expenses

	2020 \$'000	2019 \$'000
Export - shipping		1,032
Export - marketing & other	( <del>-</del>	593
Consultants	23	3
Information and communications technology	691	609
Government Radio Network	429	417
Workers compensation claims	104	202
UniSA Research Agreement	500	477
Short term leases	7	_
Operating lease payments	- L	263
Other	1,662	926
Total other expenses	3,416	4,522

#### Operating leases payments

Operating lease payments (less any lease incentives) are recognised on a straight-line basis over the lease term. This information is provided for 2018-19 only as AASB 16 *Leases* does not distinguish between operating and finance leases for lessees.

	2020 \$ '000	2019 \$ '000
Operating lease minimum payments		263
Total operating lease payments		263

#### Consultants

The number of consultancies and the dollar amount paid/payable (included in other expenses) to consultants that fell within the following bands:

	No	2020 \$ '000	No	2019 \$ '000
Below \$10,000	2	10	1	3
Above \$10,000	1	13	-	
Total	3	23	1	3

#### Other

Audit fees paid / payable to the Auditor-General's Department relating to work performed under the Public Finance and Audit Act were \$71,000 (2019: \$70,000). No other services were provided by the Auditor-General's Department.

## 3.2. Depreciation and amortisation

	2020 \$'000	2019 \$'000
Buildings and structures	582	365
Plant and equipment	315	303
Right-of-use vehicles	160	4
Roads and land improvements	164	123
Intangible assets	22	139
Total depreciation and amortisation	1,243	930

All non-current assets, with a limited useful life, are systematically depreciated/amortised over their useful lives in a manner that reflects the consumption of their service potential.

Depreciation on buildings and structures increased due to the establishment of a new office building.

#### Useful life

Depreciation and amortisation are calculated on a straight-line basis. Property, plant and equipment and intangible assets depreciation are calculated over the estimated useful life as follows:

Class of asset	Useful life (years)
Buildings and structures	25-60
Plant and equipment	3-25
Right-of-use plant and equipment	Lease term
Road and land improvements	10-25
Intangibles	1-3

#### Review of accounting estimates

Assets' residual values, useful lives and amortisation methods are reviewed and adjusted, if appropriate, on an annual basis. Changes in the expected life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for prospectively by changing the time period or method, as appropriate. There were no changes during the year.

#### 3.3. Borrowing costs

	2020	2019
	\$'000	\$'000
Interest expense on lease liabilities	23	-
Total borrowing costs	23	_

ForestrySA does not capitalise borrowing costs.

## 3.4. Taxation

In accordance with Treasurer's Instruction 22, Tax Equivalent Payments are required to be paid by ForestrySA to the Treasurer if a profit is achieved. When applicable, income tax equivalent is calculated as 30% of profit before tax, adjusted for forest assets revaluation gains or losses and after deducting any approved forest operating costs which have been capitalised to the forest assets. Land revaluation increments included in Comprehensive Income are also excluded from tax calculations.

#### 4. Income

## 4.1. Revenues from sales - timber products

	2020	2019
	\$'000	\$'000
Revenue from log sales	12,431	13,514
Total revenues from sales - timber products	12,431	13,514

All revenue from the sales of goods and services is revenue recognised from contracts with customers.

AASB 15 Revenue from Contracts with Customers has had an impact on the financial statements since its adoption on 1 July 2018. This is because some Log Sales Agreements contain a clause which guarantees 85% of the value of the Contracted Annual Log Supply as income to ForestrySA, even if the customer does not achieve the agreed monthly purchase volumes. Under the definitions within AASB 15, guaranteed volumes of log sales classify as an 'unconditional right to consideration' and are recorded as a receivable (asset). An offsetting contract liability is also recognised. (Refer to Notes 6.2 and 7.3 respectively for these disclosures.) As the contract liability offsets the receivable, there is no net impact on equity.

#### Contract balances

	2020	2019
	\$'000	\$'000
Contract receivables	2,899	5,798
Contract liabilities	2,899	5,798

Income is recognised as performance obligations are met i.e. logs are delivered, or when ForestrySA realises its right to income for customers not achieving their required monthly log purchase.

#### 4.2. Revenues from SA Government

	2020	2019 \$'000
	\$'000	
Revenues from SA Government		
Community Service Obligation funding (1)	4,116	4,102
Government radio network funding	429	417
Deferred revenues from SA Government (1)	83	21
Net revenues from SA Government	4,628	4,540

(1) CSO funding received for capital expenditure is recognised in revenue over the life of the asset.

Revenues from SA Government comprise funding for the operation of the Government radio network and provision of Community Service Obligation (CSO) activities, including community forestry, community fire protection and forestry industry research and development. This funding is recognised where there is reasonable assurance that the funding will be received and ForestrySA will comply with all attached conditions. There are no unfulfilled conditions or other contingencies attached to this funding.

#### 4.3. Interest

	2020	2019
	\$'000	\$'000
Interest received	213	328
Total interest revenue	213	328

#### 4.4. Other income

	2020 \$'000	2019 \$'000
Leases and Licences	619	432
Other revenue from non SA Government entities	677	512
Other income	1,296	944

#### Leases and Licences

Income from licences for grazing or other activities on forest reserves, leases for commercial tenancies in the office building in Mt Gambier and Crown leases on land in the Mid North region.

#### Other Revenue

Other revenue includes income from recreational activities, weighbridge and recoupment of costs relating to the commercial lease of the office building.

## 4.5. Net gain from the disposal of property, plant and equipment

	2020	2019 \$'000
	\$'000	
Land and buildings:		
Proceeds from disposal	4	4
Less expenses on disposal	-	(42)
Less carrying amount of assets disposed	0.25	(12)
Net gain/(loss) from disposal of land and buildings		(54)
Plant and equipment:		
Proceeds from disposal	5	130
Less carrying amount of assets disposed		(176)
Net gain/(loss) from disposal of plant and equipment	5	(46)
Roads and land improvements		
Proceeds from disposal	-	- 4
Less carrying amount of assets disposed		(28)
Net gain/(loss) from disposal of plant and equipment	4	(28)
Total assets:		
Total proceeds from disposal	5	130
Less expenses on disposal	5	(42)
Less total carrying amount of assets disposed	÷.	(216)
Total net gain (loss) from disposal of assets	5	(128)

### 5. Non-financial assets

## 5.1. Property, plant and equipment by asset class

Property, plant and equipment comprises owned and right-of-use (leased) tangible assets that do not meet the definition of investment property.

	2020	2019
	\$'000	\$'000
Land and buildings		
Land at fair value	39,201	33,388
Buildings at fair value	6,578	6,545
Accumulated depreciation at the end of the period	(1,063)	(490)
Total land and buildings	44,716	39,443
Road and land improvements		
Road and land improvements at fair value	3,883	3,776
Accumulated depreciation at the end of the period	(2,223)	(2,061)
Total leasehold improvements	1,660	1,715
Plant and equipment		
Plant and equipment at fair value	3,469	3,921
Accumulated depreciation at the end of the period	(1,198)	(1,388)
Total plant and equipment	2,271	2,533
Right-of-use plant and equipment		
Right-of-use plant and equipment at cost	787	
Accumulated depreciation at the end of the period	(143)	-
Total right-of-use plant and equipment	644	
Total property, plant and equipment	49,291	43,691

## 5.2. Property, plant and equipment owned by ForestrySA

Property, plant and equipment owned by ForestrySA with a value equal to or in excess of \$10,000 is capitalised, otherwise it is expensed. Property, plant and equipment owned by ForestrySA is recorded at fair value. Detail about ForestrySA's approach to fair value is set out in note 11.2.

Plant and equipment includes nil fully depreciated plant and equipment still in use.

#### Impairment

Property, plant and equipment owned by ForestrySA has not been assessed for impairment as they are non-cash generating assets, that are specialised in nature and held for continual use of their service capacity and are subject to regular revaluation.

#### Reconciliation 2019-20

	Land	Buildings and structures	Roads and land improvements	Plant and equipment	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
Carrying amount at 1 July 2019	33,388	6,055	1,715	2,533	43,691
Additions / transfers	1.	43	107	38	188
Disposals	-	7.2			-
Transfers between classes	4	(1)	2	(1)	. 9
Assets reclassified to or from assets					
held for sale			-	16	16
Revaluation increments	5,813			-	5,813
Depreciation charge for the year		(582)	(164)	(315)	(1,061)
Carrying amount at 30 June 2020	39,201	5,515	1,660	2,271	48,647

#### Reconciliation 2018-19

	Land \$'000	Buildings and structures \$'000	Roads and land improvements \$'000	Plant and equipment \$'000	Total \$'000
Carrying amount at 1 July 2018	33,142	8,025	1,630	3,490	46,287
Additions / transfers	1190	417	265	42	724
Disposals	26	(12)	(28)	(177)	(217)
Transfers between classes Assets reclassified to or from assets		25	(25)	17,12	-
held for sale	249		1.9	(480)	(231)
Revaluation increments	246	1,160	1	770	2,177
Revaluation decrements	(249)	(3,195)	(5)	(809)	(4,258)
Depreciation charge for the year	-	(365)	(123)	(303)	(791)
Carrying amount at 30 June 2019	33,388	6,055	1,715	2,533	43,691

## 5.3. Property, plant and equipment leased by ForestrySA

Property, plant and equipment leased by ForestrySA is recorded at cost. Additions to leased property, plant and equipment during 2019-20 were \$118,000 (2018-19 nil).

Short-term leases of 12 months or less and low value leases where the underlying asset value is less than \$15,000 are not recognised as right-of-use assets. The associated lease payments are recognised as an expense and are disclosed in note 3.2.

ForestrySA has a limited number of leases:

24 motor vehicle leases with the South Australian Government Financing Authority (SAFA).
 Motor vehicle leases are non-cancellable, with rental payments monthly in arrears. Motor
 vehicle lease terms can range from 3 years (60,000km) up to 5 years (100,000km). No
 contingent rental provisions exist within the lease agreements and no options exist to renew
 the leases at the end of their term.

The lease liabilities related to the right-of-use assets are disclosed in note 7.2. ForestrySA's maturity analysis of its lease liabilities is disclosed in note 11.3. Expenses related to leases, including depreciation and interest expenses, are disclosed in note 3. Cash outflows related to leases are disclosed in note 8.2.

#### *Impairment*

Property, plant and equipment leased by ForestrySA has been assessed for impairment. There was no indication of impairment. No impairment loss or reversal of impairment loss was recognised.

## 5.4. Intangible assets

	2020 \$'000	2019 \$'000
Computer software	\$ 000	\$ 000
Purchased computer software	2,592	2,592
Accumulated amortisation	(2,592)	(2,570)
Total computer software	-	22
Work in Progress		
Additions	93	
Total work in progress	93	7.5
Total intangible assets	93	22

Intangible assets are initially measured at cost and are tested for indications of impairment at each reporting date. Following initial recognition, intangible assets are carried at cost less accumulated amortisation and any accumulated impairment losses.

The acquisition of or internal development of software is capitalised only when the expenditure meets the definition and recognition criteria and when the amount of expenditure is greater than or equal to \$10,000.

#### Reconciliation 2019-20

	Total
	\$'000
Carrying amount at 1 July 2019	22
Additions	93
Amortisation charge for the year	(22)
Carrying amount at 1 July 2020	93

#### Reconciliation 2018-19

Total
\$'000
161
(139)
22

#### 5.5. Forest assets

Forest Assets are recorded at fair value. Detail about ForestrySA's approach to fair value is set out in note 11.2.

	2020	2019
	\$'000	\$'000
Current		
Current portion of forest assets valuation	6,323	3,559
Total current forest assets	6,323	3,559
	2020	2019
	\$'000	\$'000

Non-current portion of forest assets valuation	48,425	42,044
Total non-current forest assets	48,425	42,044

#### Reconciliation 2019-20

	Total \$'000
FOREST ASSETS	
Carrying amount at 1 July 2019	45,603
Other revaluation (impairment) recorded in statement of comprehensive income	9,145
Carrying amount at 1 July 2020	54,748

#### Reconciliation 2018-19

	Total	
	\$'000	
FOREST ASSETS		
Carrying amount at 1 July 2018	43,490	
Other revaluation (impairment) recorded in statement of comprehensive income	2,113	
Carrying amount at 1 July 2019	45,603	

ForestrySA recognises the multiple rotation forest valuation, being \$54,748,000 (2019: \$45,603,000). More information is provided at Note 11.2.

#### 5.6. Inventories

	2020	2019 \$'000
	\$'000	
Current - held for distribution at no or nominal amount		
Materials at cost	20	13
Total current inventories held for distribution at no or nominal amount	20	13
Current - held for sale		
Materials at cost	179	147
Total current other inventories – other than those held for distribution		
at no or nominal amount	179	147
Total inventories	199	160

Inventories held for distribution at no or nominal consideration are measured at cost and adjusted when applicable for any loss of service potential. Inventories held for sale are measured at the lower of cost or their net realisable value.

Cost for all other inventory is measured based on the first-in, first-out method. Net realisable value is determined using the estimated sales proceeds less costs incurred in marketing, selling and distribution to customers.

#### 5.7. Non-current assets classified as held for sale

	2020	2019
	\$'000	\$'000
Land	6,403	5,550
Buildings	142	142
Property, plant and equipment	528	545
Total non-current assets classified as held for sale	7,073	6,237

Non-current assets are classified as held for sale and stated at the lower of their carrying amount and fair value less costs to sell if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset's sale is expected to be completed one year from the date of classification, except for events or circumstances beyond the entity's control where it is still committed to sell the asset.

Land held for sale relates to the divestment of commercial forest reserves in the Mid North Region in accordance with the Mid North Forests Future Strategy. Most of the parcels held for sale are currently under Crown Leases with individuals and businesses aiming to establish a range of commercial uses for the land at Wirrabara and Bundaleer.

### 6. Financial assets

### 6.1. Cash and cash equivalents

	2020 \$'000	2019 \$'000
Cash	.1	1
Deposits	4,253	2,607
Cash Management Fund	15,751	15,586
Total cash and cash equivalents	20,005	18,194

#### Deposits and Cash Management Fund

Deposits include funds held with the Commonwealth Bank of Australia (CBA). The balance of these funds is not available for general use, i.e. funds can only be used in accordance with the Treasurer's/Under Treasurer's approval. Cash Management Fund (CMF) deposits are lodged with SAFA and earn interest at the respective CMF rate.

#### 6.2. Receivables

	2020	2019
	\$'000	\$'000
Current		
Trade receivables - SA Gov	15	1,139
Trade receivables - Non SA Gov	1,848	2,186
Contract receivables	2,899	2,899
Less impairment loss on receivables	(218)	(30)
Accrued revenue	5	24
Prepayments	58	77
GST receivable		130
Total current receivables	4,607	6,425

Trade receivables arise in the normal course of selling goods and services to other government agencies and to the public. Trade receivables are normally settled within 30 days after the issue of an invoice or the goods/services have been provided under a contractual arrangement.

Other than as recognised in the allowance for impairment loss on receivables, it is anticipated that counterparties will discharge their obligations. The carrying amount of receivables approximates net fair value due to being receivable on demand. There is no concentration of credit risk.

Refer to note 11.3 for further information on risk management.

Receivables, prepayments and accrued revenues are non-interest bearing. Receivables are held with the objective of collecting the contractual cash flows and they are measured at amortised cost.

The net amount of GST payable to the ATO is included as part of receivables.

Under the definitions within AASB 15, guaranteed volumes of log sales classify as an 'unconditional right to consideration' and are recorded as a receivable (asset). An offsetting contract liability is also recognised. (Refer to Note 7.3)

#### Allowance for impairment loss on receivables

	2020	2019 \$'000
	\$'000	
Carrying amount at the beginning of the period	30	30
Amounts written off	-	-
Amounts recovered during the year	-	_
Increase / (Decrease) in allowance recognised in profit or loss	188	-
Carrying amount at the end of the period	218	30

All the above impairment losses are from receivables arising from contracts with customers and licences with licensees.

Refer to note 11.3 for details regarding credit risk and the methodology for determining impairment.

#### 7. Liabilities

Employee benefits liabilities are disclosed in note 2.4.

## 7.1. Payables

W.	2020	2019
	\$'000	\$'000
Current		
Trade payables	1,237	1,381
Accrued expenses	90	70
GST payable	146	-
Employment on-costs	58	56
Total current payables	1,531	1,507
Non-current		
Employment on-costs	92	96
Total non-current payables	92	96
Total payables	1,623	1,603

Payables and accruals are raised for all amounts owing but unpaid. Sundry payables are normally settled within 30 days from the date the invoice is first received. All payables are non-interest bearing. The carrying amount of payables represents fair value due to their short-term nature.

#### Employment on-costs

Employment on-costs include payroll tax, WorkCover levies and superannuation contributions and are settled when the respective employee benefit that they relate to is discharged.

ForestrySA contributes to several State Government and externally managed superannuation schemes. These contributions are treated as an expense when they occur. There is no liability for payments to beneficiaries as they have been assumed by the respective superannuation schemes. The only liability outstanding at reporting date relates to any contributions due but not yet paid to the South Australian Superannuation Board.

As a result of an actuarial assessment performed by the Department of Treasury and Finance, the proportion of long service leave taken as leave is 42% (2019: 41%). The average factor for the calculation of employer superannuation on-costs remains at the 2019 rate of 9.8%. These rates are used in the employment on-cost calculation. The net financial effect of the changes in the current financial year is immaterial. The impact on future periods is impracticable to estimate.

## 7.2. Financial liabilities

	Note	2020 \$'000	2019 \$'000
Current			
Lease liabilities	5.3	141	-3.
Total current financial liabilities		141	-
Non-current			
Lease liabilities	5.3	513	4
Total non-current financial liabilities		513	
Total other liabilities		654	. 4

ForestrySA measures financial liabilities at amortised cost.

All lease liabilities relate to right-of-use vehicle assets.

All material cash outflows are reflected in the lease liabilities disclosed above. For 2018-19 there were no finance leases to be recognised in accordance with AASB 117.

#### 7.3. Contract liabilities

	2020 \$'000	2019 \$'000
Current		
Contract liability	2,899	2,899
Total current contract liabilities	2,899	2,899
Non-current		
Contract liability		2,899
Total non-current contract liabilities	-	2,899
Total contract liabilities	2,899	5,798

Under the definitions within AASB 15, guaranteed volumes of log sales classify as an 'unconditional right to consideration' and are recorded as a receivable (asset) (refer to note 6.2). An offsetting contract liability is also recognised.

## 7.4. Other provisions

	2020	2019
	\$'000	\$'000
Current		
Provision for workers compensation	108	104
Total current provisions	108	104
Non-current		
Provision for workers compensation	393	162
Total non-current provisions	393	162
Total provisions	501	266

#### Movement in provisions

	2020
	\$'000
Carrying amount at the beginning of the period	266
Additional provisions recognised	235
Carrying amount at the end of the period	501

A provision has been reported to reflect unsettled workers compensation claims. The workers compensation provision is based on an actuarial assessment of the outstanding liability as at 30 June 2020 provided by a consulting actuary engaged through the Office of the Commissioner for Public Sector Employment. The provision is for the estimated cost of ongoing payments to employees as required under current legislation.

ForestrySA is responsible for the payment of workers compensation claims.

#### 7.5. Other liabilities

	2020	2019
	\$'000	\$'000
Current		
Unearned revenue	405	365
Total current other liabilities	405	365
Non-current		
Unearned revenue	5,135	5,365
Total non-current other liabilities	5,135	5,365
Total other liabilities	5,540	5,730

ForestrySA has leases and licences for which payment has been received in advance, \$4,386,000 of which relates to Crown Leases over land in the Mid North of South Australia (2019: \$4,294,000).

## 8. Other disclosures

## 8.1. Equity

The asset revaluation surplus is used to record increments and decrements in the fair value of property and plant and equipment to the extent that they offset one another. Relevant amounts are transferred to retained earnings when an asset is derecognised.

The forest assets reserve is used to record increments and decrements in the fair value of forest assets to the extent that they offset one another.

#### 8.2. Cash flow

Cash flows are included in the Statement of Cash Flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the ATO is classified as part of operating cash flows.

#### Leases

	2020 \$'000	2019 \$'000
Plant and equipment – right-of-use vehicles	232	- Y
Total cash outflow for leases	232	

#### Cash flow reconciliation

	2020	2019
	\$'000	\$'000
Reconciliation of cash and cash equivalents at the end of the reporting period		
Cash and cash equivalents disclosed in the Statement of Financial Position	20,005	18,194
Balance as per the Statement of Cash Flows	20,005	18,194
Reconciliation of net cash provided by operating activities to net result		
Net cash provided by/(used in) operating activities	8,294	(4,723)
Add/less non-cash items		
Depreciation and amortisation expense of non-current assets	1,243	930
(Gain)/loss on sale or disposal of non-current assets	(5)	128
(Gain)/loss on revaluation of forest assets	(9,145)	(2,113)
(Gain)/loss on revaluation of other non-current assets	-	3,512
Movement in assets and liabilities		
(Increase)/decrease in receivables	4,717	3,430
(Increase)/decrease in inventories	(39)	1,326
Increase/(decrease) in payables	20	(1,712)
Increase/(decrease) in employee benefits	6	80
Increase/(decrease) in provisions	235	10
Increase/(decrease) in contract liabilities	(2,899)	-
Increase/(decrease) in other liabilities	(190)	4,255
Net result	2,237	5,123

## 9. Changes in accounting policy

## 9.1. AASB 16 Leases

AASB 16 sets out a comprehensive model for lessee accounting that addresses recognition, measurement, presentation and disclosure of leases. Lessor accounting is largely unchanged. AASB 16 *Leases* replaces AASB 117 *Leases* and related interpretations.

The adoption of AASB 16 *Leases* from 1 July 2019 resulted in adjustments to the amounts recognised from a lessee perspective in the financial statements:

- AASB 117 Leases only required the recognition of an asset and lease liability in relation to
  finance leases. AASB 16 Leases applies a comprehensive model to all leases. Applying AASB 16
  Leases will result in leases previously classified as operating leases having right-of-use assets
  and related lease liabilities being recognised in the Statement of Financial Position.
- AASB 117 Leases resulted in operating lease payments being recognised as an expense under Supplies and Services. AASB 16 Leases largely replaces this with depreciation expenses that represents the use of the right-of-use asset and borrowing costs that represent the cost associated with financing the right-of-use asset.

#### Impact on retained earnings

The total impact on ForestrySA's retained earnings as at 1 July 2019 is as follows:

	\$'000
Closing retained earnings 30 June 2019 – AASB 117	27,968
Assets	
Property, Plant and Equipment	694
<u>Liabilities</u>	
Financial liabilities	(694)
Opening retained earnings 1 July 2019 – AASB 16	27,968

ForestrySA disclosed in its 2018-19 financial report total undiscounted operating lease commitments of \$936,000 under AASB 117.

#### Accounting policies on transition

AASB 16 sets out accounting policies on transition in its transitional provisions. The *Treasurer's Instructions (Accounting Policy Statements)* requires certain choices in those transitional provisions to be taken. ForestrySA has adopted the following accounting policies:

- to apply AASB 16 retrospectively. The cumulative effect of initially applying the Standard was recognised at 1 July 2019. Comparatives have not been restated.
- at 1 July 2019 AASB 16 was applied only to contracts that were previously identified as containing a lease under AASB 117 and related interpretations.
- the initial measurement of lease liability was the present value of the remaining lease
  payments discounted using the relevant incremental borrowing published by the Department
  of Treasury and Finance rate as at 1 July 2019 based on the SA Government's cost of
  borrowing. The average weighted incremental borrowing rate for this purpose was 3.71%.
- the initial measurement of right-of-use assets has been calculated as an amount equal to the lease liability on transition adjusted for prepaid or accrued lease payments and lease incentive liabilities.

## Ongoing accounting policies

The *Treasurer's Instructions (Accounting Policy Statements)* specify required accounting policies for public authorities in applying AASB 16. These requirements are reflected in ForestrySA's accounting policies as follows:

- right-of-use assets and lease liabilities are not recognised for leases of low value assets, being assets, which have a value of \$15,000 or less, nor short-term leases, being those with a lease term of 12 months or less.
- ForestrySA, in the capacity of a lessee, does not include non-lease components in lease amounts.
- right-of-use assets are not measured at fair value on initial recognition for leases that have significantly below-market terms and conditions principally to enable ForestrySA to further its objectives.
- right-of-use assets are subsequently measured applying a cost model.

Significant accounting policies relating to the application of AASB 16 are disclosed under relevant notes and are referenced at note 5.3.

## 10. Outlook

## 10.1. Unrecognised contractual commitments

Commitments include operating, capital and outsourcing arrangements arising from contractual or statutory sources and are disclosed at their nominal value.

#### Expenditure commitments

	2020 \$'000	2019 \$'000
Within one year	5,819	4,781
Later than one year but not longer than five years	5,240	866
Total expenditure commitments	11,059	5,647

ForestrySA's contracting commitments include agreements for the harvesting and transport of log and associated logistics. The calculations, based on assumptions about variables that impact the future dollar outcome of the commitments to ForestrySA, are indicative amounts.

ForestrySA has also entered into supply agreements to sell timber that is harvested. The terms and conditions of these agreements vary.

#### Operating lease commitments

	2020	2019	
	\$'000	\$'000	
Commitments in relation to operating leases contracted for at			
the reporting date but not recognised as liabilities are payable as follows:			
Within one year	-	218	
Later than one year but not longer than five years	-	457	
Later than five years	-	261	
Total operating lease commitments	4	936	
Representing:			
Cancellable operating leases	1.0 <del>4</del>	-	
Non-cancellable operating leases	-	936	
Total operating lease commitments	/4	936	

Operating lease commitments are provided for the comparative year only as AASB 16 Leases does not distinguish between operating and finance leases for the lessee.

#### Lease receivable commitments

	2020 \$'000	2019 \$'000
Commitments in relation to leases contracted for at the reporting date but not recognised as receivables are as follows:	vs:	
Within one year	294	289
Later than one year but not longer than five years	1,013	995
Later than five years	61	303
Total lease receivable commitments	1,368	1,587

Lease receivable commitments relate to the office building located in Mt Gambier where two tenants share the office space with ForestrySA. A new contract is yet to be negotiated for one of the tenants.

## 10.2. Contingent assets and liabilities

Contingent assets and contingent liabilities are not recognised in the Statement of Financial Position, but are disclosed by way of a note and, if quantifiable, are measured at nominal value.

ForestrySA has contingent assets in the form of bank guarantees issued by various banks for ForestrySA customers.

ForestrySA has lodged an insurance claim with SAicorp following the Cudlee Creek bushfire on 20 December 2019. The claim has been accepted but is still under review. There is no information as to the potential timing and amount of the claim settlement.

ForestrySA and the SA Superannuation Board entered an arrangement at the time of incorporation of ForestrySA to allow officers and employees of ForestrySA, who were immediately before incorporation of ForestrySA contributors to the State Superannuation Scheme, to remain contributors under the Superannuation Act 1988.

In April 2017, ForestrySA was notified by the SA Superannuation Board of a \$2 million actuarially assessed funding deficit as at 30 June 2016 relating to defined benefit members employed by ForestrySA as at 1 July 2014. The funding deficit is expected to be funded over the next 10 to 12 years. In addition to regular contributions in relation to current superannuation benefits ForestrySA has expensed \$249,000 (2019: \$239,000) being the amount paid during the current financial year in relation to the benefit funding deficit. A liability has not been recognised for the remaining balance.

The actuarial reviews are generally conducted every three years. The results of the review due on 30 June 2019 are expected to be provided to ForestrySA in October 2020.

### 10.3. Impact of standards not yet effective

ForestrySA has assessed the impact of new and changed Australian Accounting Standards Board Standards and Interpretations not yet effective and has assessed there will be no impact on ForestrySA.

### 10.4. COVID-19 pandemic outlook

The COVID-19 pandemic may impact the operations of ForestrySA in 2020-21. The key expected impacts are:

- The availability of contractors to perform various activities.
- Potential impacts on the log market.

#### 10.5. Events after the reporting period

There were no events after the reporting period that required adjustments.

#### 11. Measurement and risk

## 11.1. Long service leave liability - measurement

AASB 119 Employee Benefits contains the calculation methodology for long service leave liability.

The actuarial assessment performed by the Department of Treasury and Finance has provided a basis for the measurement of long service leave and is based on actuarial assumptions on expected future salary and wage levels, experience of employee departures and periods of service. These assumptions are based on employee data over SA Government entities.

AASB 119 Employee Benefits requires the use of the yield on long-term Commonwealth Government bonds as the discount rate in the measurement of the long service leave liability. The yield on long-term Commonwealth Government bonds has decreased from 2019 (1.25%) to 2020 (0.75%).

This decrease in the bond yield, which is used as the rate to discount future long service leave cash flows, results in an increase in the reported long service leave liability.

The net financial effect of the changes to actuarial assumptions in the current financial year is a decrease in the long service leave liability of \$59,000 and employee benefits expense of \$59,000. The impact on future periods is impracticable to estimate as the long service leave liability is calculated using several demographical and financial assumptions – including the long-term discount rate.

The actuarial assessment performed by the Department of Treasury and Finance decreased the salary inflation rate to 2.5% for long service leave liability (2019: 4%). As a result, there is a decrease in the reported long service leave liability resulting from changes in the salary inflation rate.

#### 11.2. Fair value

AASB 13 Fair Value Measurement defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants, in the principal or most advantageous market, at the measurement date.

#### Initial recognition

Non-current tangible assets are initially recorded at cost or at the value of any liabilities assumed, plus any incidental cost involved with the acquisition.

Where assets are acquired at no value, or minimal value, they are recorded at fair value in the Statement of Financial Position. However, if the assets are acquired at no or nominal value as part of a restructure of administrative arrangements, then the assets are recognised at book value (i.e. the amount recorded by the transferor public authority immediately prior to the restructure).

#### Revaluation

Property, plant and equipment are subsequently measured at fair value after allowing for accumulated depreciation.

The revaluation process is reviewed by the Chief Finance Officer and audit committee as required.

Non-current tangible assets are valued at fair value and revaluation of non-current assets or a group of assets is only performed when the fair value at the time of acquisition is greater than \$1.5 million and estimated useful life is greater than three years.

Revaluation is undertaken on a regular cycle as detailed below. If at any time management considers that the carrying amount of an asset materially differs from its fair value, then the asset will be revalued regardless of when the last valuation took place.

Any accumulated depreciation as at the revaluation date is eliminated against the gross carrying amounts of the assets and the net amounts are restated to the revalued amounts of the asset.

#### Fair value hierarchy

ForestrySA classifies fair value measurement using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements, based on the data and assumptions used in the most recent revaluation:

- Level 1 traded in active markets and is based on unadjusted quoted prices in active markets for identical assets or liabilities that the entity can access at measurement date.
- Level 2 not traded in an active market and are derived from inputs (inputs other than quoted prices included within level 1) that are observable for the asset, either directly or indirectly.
- Level 3 not traded in an active market and are derived from unobservable inputs.

ForestrySA's policy is to recognise transfers into and out of fair value hierarchy levels as at the end of the reporting period.

During 2020 and 2019, ForestrySA had no valuations categorised into level 1; there were no transfers of assets between level 1 and 2 fair value hierarchy levels and there were no changes in valuation technique.

#### Fair value classification - non-financial assets at 30 June 2020

	Note	Level 2 \$'000	Level 3 \$'000	Total \$'000
Recurring fair value		r	3	1
measurements				
Forest assets	5.5		54,748	54,748
Land	5.2	39,201		39,201
Buildings and structures	5.2	1.0	5,516	5,516
Roads and land improvements	5.2	7-1	1,658	1,658
Plant and equipment	5.2	- ú	2,272	2,272
Total recurring fair value measurements		39,201	64,194	103,395
Non-recurring fair value measurements	•			
Assets held for sale	5.7		7,073	7,073
Total non-recurring fair value measurements			7,073	7,073
Total	1-	39,201	71,267	110,468

#### Fair value classification - non-financial assets at 30 June 2019

		Level 2	Level 3	Total
	Note	\$'000	\$'000	\$'000
Recurring fair value				
measurements				
Forest assets	5.5	1.5	45,603	45,603
Land	5.2	33,388	-	33,388
Buildings and structures	5.2	-	6,055	6,055
Roads and land improvements	5.2	4	1,715	1,715
Plant and equipment	5.2	<u>.</u>	2,533	2,533
Total recurring fair value measurements	_	33,388	55,906	89,294
Non-recurring fair value measurements	-			
Assets held for sale	5.7		6,237	6,237
Total non-recurring fair value measurements		.4	6,237	6,237
Total		33,388	62,143	95,531

#### Land

An independent valuation of land owned by ForestrySA was performed by a Certified Practising Valuer from the State Valuation Office, as at 30 June 2020.

Fair value of land has been determined using the market approach. Relevant general and economic factors were considered in arriving at a value opinion, including investigation of recent sales of comparable properties. Discounts by region were applied to reflect restrictions on potential highest and best use imposed by legislation on land operated by ForestrySA. The discount rates used this year are Mount Lofty Ranges 60% (2019: 65%), Green Triangle 45% (2019: 40%) and Mid North 55% (2019: 55%).

#### Buildings and structures

At least every five years, an independent valuation appraisal of ForestrySA's buildings and structures will be performed. However, if at any time management considers that the carrying amount of an asset class materially differs from its fair value, then the asset class will be revalued regardless of when the last valuation took place. ForestrySA undertook an independent valuation appraisal of its buildings and structures in June 2019.

#### Plant and equipment

All items of plant and equipment owned by ForestrySA had a fair value at the time of acquisition less than \$1.5 million or had an estimated useful life that less than three years. Plant and equipment has not been revalued in accordance with APS 116.D. The carrying value of these items are deemed to approximate fair value.

#### Forest assets

ForestrySA engaged Margules Groome Consulting Pty Ltd to establish the valuation for its plantation estate in the Mt Lofty Ranges as at 30 June 2020.

Margules Groome considered the sales comparison and expectation valuation methods in deriving the fair value for the forest plantation assets and used an appropriate weighting of these two valuation methods. The expectation method, which forms 90% of the valuation weighting, is expressed through the application of a discount rate to projected future cash flows. The discount rate used for the expectation method is 7.0% (2019: 7.0%) (pre-tax real) for the long-term cash flows, increased to 9.2% to consider current rotation only. The use of a 'real' discount rate effectively allows for all prices and costs to be expressed in current dollar terms.

Valuation Method	Weighting %	Value (AUD million)
Sales Comparison Method Value	10%	54.787
Expectation Method Value	90%	54.744
Fair Market Value Opinion	100%	54.748

This value opinion is considered to be compliant with Australian Accounting Standards Board (AASB) 141 Agriculture and International Accounting Standards (IAS) 41 Agriculture, AASB 13 and International Financial Reporting Standards (IFRS) 13 Fair Value Measurement and Uniform Standards of Professional Appraisal Practice 2018-19 (USPAP) market value. This value assumes that the asset will have received full exposure to the market over a period of one year.

The valuation assumes that the commercial plantation land has no value because it is not freehold land and cannot be traded in an open and competitive market. It is reserved by the state in perpetuity for production forestry or public reserve as Crown land, thereby negating any fair market value. No notional land rental has been applied.

The changes to the inputs of the expectation method are identified as movements in:

- Depletions and advance cashflows.
- Revenues increased primarily due to woodflows and yields being brought forward and increased.
- Production costs increased primarily due to increases in woodflows and an increase in unit production costs.
- Transport costs increased.
- Operational costs increased.
- Volume-based overhead costs increased.
- The inclusion of risk modelling for fire resulting in a value reduction.

The difference between the fair value of Forest Assets held at the reporting date and the fair value at the previous reporting date is recognised in the Statement of Comprehensive Income as the net change in value of Forest Assets. All forest expenditure is recognised as an expense in the year it is incurred (except for roading that may be capitalised where appropriate). The change in value is also disclosed in notes 5.5.

The net change in the value of Forest Assets is accounted for in the Forest Assets reserve.

#### Sensitivity analysis for Forest Assets

The effects of modifying a range of input variables is demonstrated in this sensitivity analysis:

Sensitivity to Log Prices and Production Costs	Value (AUD million)				
Production Cost Scenario	Log Price Scenario				
	-5%	Base	+5%		
+5%	38.297	48.821	59.328		
Base	44.225	54.748	65.255		
-5%	50.185	60.709	71.215		

Sensitivity to Silvicultural Costs	Value (AUD million)
+5%	54.100
Base	54.748
-5%	55.396

3. 5. 1 m. 4 20 m. m 1. 3	Value (AUD million)		
Sensitivity to Overhead Costs	Area based Overheads	Volume Based Overheads	

+5%	53.948	54.264
Base	54.748	54.748
-5%	55.548	55.233

Sensitivity to the Discount Rate	Value (AUD million)
6.0%	64.894
6.5%	59.382
7.0%	54.748
7.5%	50.809
8.0%	47.428

### Reconciliation of level 3 recurring fair value measurements as at 30 June 2020

The following table is a reconciliation of fair value measurements using significant unobservable inputs (level 3).

	Forest assets	Buildings and structures \$'000	Roads and land improvements \$'000	Plant and equipment
Opening balance at the			200.1	
beginning of the period	45,603	6,055	1,715	2,533
Acquisitions Assets reclassified to or out of		43	107	38
assets held for sale	, <del>Q</del> ta		-	16
Gains/(Losses) for the period recognised in net result: Revaluation increment /				
(decrement)	9,145	-	-	
Depreciation		(582)	(164)	(315)
Total gains/(losses) recognised in net result	9,145	(539)	(57)	(261)
Carrying amount at the end of the period	54.748	5,516	1,658	2,272

### Reconciliation of level 3 recurring fair value measurements as at 30 June 2019

The following table is a reconciliation of fair value measurements using significant unobservable inputs (level 3).

	Forest assets	Buildings and structures	Roads and land improvements	Plant and equipment
	\$'000	\$'000	\$'000	\$'000
Opening balance at the	15 25 25 15			7. 17.1
beginning of the period	43,490	8,025	1,630	3,490
Acquisitions	-	417	265	42
Disposals	-	(12)	(28)	(177)
Assets reclassified to or out of		3.00		10000
assets held for sale	-	- 3		(480)
Transfers within asset classes	4	25	(25)	,
Gains/(Losses) for the period recognised in net result:				
Revaluation increment /				
(decrement)	2,113	(2,699)	(4)	(809)
Depreciation		(365)	(123)	(303)
Total gains/(losses)				
recognised in net result	2,113	(2,634)	85	(1,727)
Gains/(Losses) for the period recognised in other				
comprehensive income (OCI)				
Revaluation				
increments/(decrements)	2.0	664	0-1	770

Total gains/(losses) recognised in OCI	14/	664		770
Carrying amount at the end				
of the period	45,603	6,055	1,715	2,533

ForestrySA's policy is to recognise transfers into and out of fair value hierarchy levels as at the end of the reporting period.

### 11.3. Financial instruments

#### Financial risk management

Risk management is overseen by the Audit and Risk Committee. ForestrySA's risk management policies are in accordance with the *Risk Management Policy Statement* issued by the Premier and Treasurer and the principles established in the Australian Standard *Risk Management Principles and Guidelines*.

ForestrySA's exposure to financial risk (liquidity risk, credit risk and market risk) is low due to the nature of the financial instruments held.

#### Liquidity risk

ForestrySA maintains a strong working capital position so current liquidity risk is low. Previous arrangements with the Department of Treasury and Finance for operating loss subsidy funding are not currently considered necessary.

#### Credit risk

ForestrySA has policies and procedures in place to ensure that transactions occur with customers with appropriate credit history.

Bank guarantees or cash deposits are obtained for specific customers.

#### Impairment of financial assets

Loss allowances for receivables are measured at an amount equal to lifetime expected credit loss (ECL) using the simplified approach in AASB 9. ForestrySA uses an allowance matrix to measure the expected credit loss of receivables from non-government debtors which comprise a small number of large balances and a few small balances.

To measure the expected credit losses, receivables are grouped based on shared risk characteristics and the days past due. When estimating expected credit loss, ForestrySA considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on ForestrySA's historical experience and informed credit assessment, including forward-looking information.

The maximum period considered when estimating expected credit losses is the maximum contractual period over which ForestrySA is exposed to credit risk.

The expected credit loss of government debtors is nil based on the external credit ratings and nature of the counterparties.

Loss rates are calculated based on the probability of a receivable progressing through stages to write off based on the common risk characteristics of the transaction and debtor.

The following table provides information about the exposure to credit risk and ECL for non-government debtors.

	Debtor unsecured carrying amount \$'000	Loss %	Lifetime expected losses \$'000
Current (not past due)	334	3.89%	13
1-30 days past due	3	100.00%	3
31-60 days past due	1	0.09%	/
61-90 days past due	3	100.00%	3
90+ days past due	336	59.25%	199
Loss allowance			218

Loss rates are based on actual history of credit loss, these rates have been adjusted to reflect differences between previous economic conditions, current conditions and ForestrySA's view of the forecast economic conditions over the expected life of the receivables.

Impairment losses are presented as net impairment losses within net result, subsequent recoveries of amounts previously written off are credited against the same line item.

Receivables are written off when there is no reasonable expectation of recovery.

ForestrySA considers that its cash and cash equivalents have low credit risk due to financial security held for customers with material contracts.

The allowance was recognised when there was objective evidence that a receivable was impaired. The allowance for impairment was recognised in other expenses for specific debtors and debtors assessed on a collective basis for which such evidence existed.

No impairment losses were recognised in relation to contract receivables during the year.

#### Market risk

ForestrySA does not trade in foreign currency, nor enter transactions for speculative purposes, nor for hedging. ForestrySA does not undertake any hedging in relation to interest or foreign currency risk and manages its risk as per the government's risk management strategy articulated in TI 23 Management of Foreign Currency Exposures.

Exposure to interest rate risk related to interest bearing liabilities or borrowings is minimal and only related to right-of-use vehicle assets managed through the South Australian Government Financing Authority (SAFA).

Some forest product sales are made to customers with exposure to international market risks including foreign currencies, hence ForestrySA maintains a level of market risk related to its core business of forest product sales.

There have been no changes in risk exposure since the last reporting period.

### Categorisation of financial instruments

Details of the significant accounting policies and methods adopted including the criteria for recognition, the basis of measurement, and the basis on which income and expenses are recognised with respect to each class of financial asset, financial liability and equity instrument are disclosed in the respective financial asset note and financial liability note per below.

#### Classification of financial instruments

ForestrySA measures all financial instruments at amortised cost.

		2020			
Category of financial asset and financial liability		Carrying amount / Fair value	2020	naturities	
			Within 1 year	1-5 years	More than 5 years
	Note	(\$'000)	(\$'000)	(\$'000)	(\$'000)
Financial assets					
Cash and equivalent					
Cash and cash equivalent	6.1	20,005	n/a	n/a	n/a
Financial assets at amortised cost					
Receivables (excl prepayments)	6.2	4,549	n/a	n/a	n/a
Total financial assets		24,554		-	(=
Financial liabilities					
Financial liabilities at amortised cost					
Trade payables/accrued expenses	7.1	1,327	1,327	4.0	7.2
Lease liabilities	7.2	654	141	363	150
Other financial liabilities	7.3	2,899	2,899		
Total financial liabilities		4,880	4,367	363	150

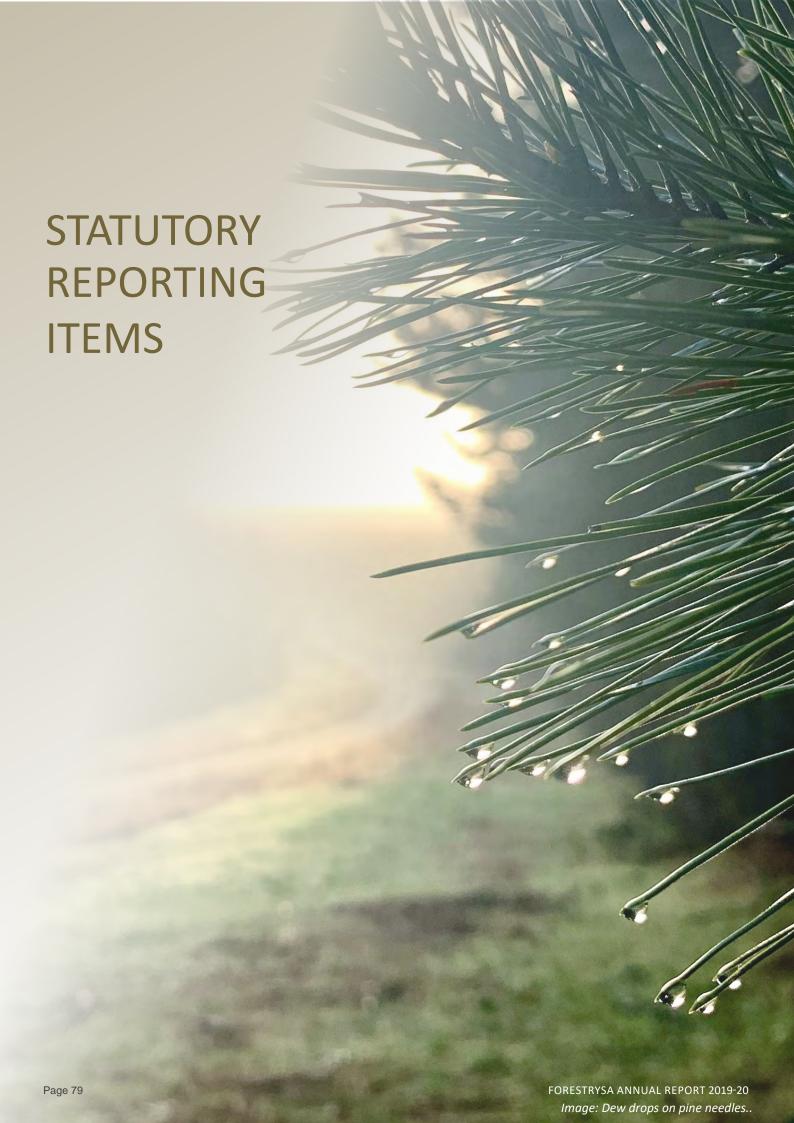
Category of financial asset and		2019 Carrying amount / Fair value	2019 C	ontractual r	naturities
financial liability	Note	(\$'000)	Within 1 year (\$'000)	1-5 years (\$'000)	More than 5 years (\$'000)
Financial assets					
Cash and equivalent					
Cash and cash equivalent	6.1	18,194	n/a	n/a	n/a
Financial assets at amortised cost					
Receivables (excl prepayments)	6.2	9,117	n/a	n/a	n/a
Total financial assets		27,311		· ·	
Financial liabilities					
Financial liabilities at amortised cost					
Trade payables/accrued expenses	7.1	1,151	1,151	-	
Other financial liabilities	7.3	5,798	2,899	2,899	
Total financial liabilities		6,949	4,050	2,899	

#### Receivables and payables

The receivable and payable amounts disclosed here exclude amounts relating to statutory receivables and payables (e.g. Commonwealth, State and Local Government taxes, fees and

charges; Auditor-General's Department audit fees). In government, certain rights to receive or pay cash may not be contractual and therefore, in these situations, the requirements will not apply. Where rights or obligations have their source in legislation such as levies, tax and equivalents, they would be excluded from the disclosure. The standard defines contract as enforceable by law. All amounts recorded are carried at cost (not materially different from amortised cost).

The receivables amount disclosed here excludes prepayments as they are not financial assets. Prepayments are presented in note 6.2.



## **HUMAN RESOURCES**

## WORK HEALTH, SAFETY AND RETURN TO WORK PROGRAMS

ForestrySA is committed to providing a safe and healthy working environment for all staff, contractors, customers, volunteers, community members and other visitors.

We endeavour to optimise the culture and climate of the organisation through continuous improvement and provide skilled personnel with the competence necessary to deliver our services safely and to high professional standards.

While management has a duty to provide and maintain a safe and healthy work environment, health and safety in the workplace are responsibilities and commitments shared by all employees.

In the past 12 months, ForestrySA's performance is reflective of the programs and systems that have been implemented.

The ForestrySA Lead Team actively demonstrate their dedication to a safe work environment by monitoring, reviewing, challenging and reporting on safety including regular communication with key stakeholders. An active incident management system is supported and monitored by the Lead Team, with incidents and reports regularly reviewed by the Board.

Program name	Performance
ForestrySA Safety Management System Complete implementation of new incident reporting and management system.	Ability for staff to enter and manage their own incident reporting, including remote incident reporting, a function not previously available.
ForestrySA Employee Assistance Program This program provides ForestrySA staff and their families with free access to a range of health services such as confidential counselling, to assist with both work-related and personal issues.	The program has provided critical support to staff and their families during 2019-20, particularly in response to the COVID-19 pandemic.
ForestrySA Driver Safety Awareness Program Practical driver training, providing better road safety knowledge and outcomes for all staff. All employees must complete a formal verification of competency to be able to drive heavy vehicles.	No serious road-related incidents involving ForestrySA staff or contractors. Formal verification of employee driving capabilities.
ForestrySA Transport Safety Initiative An initiative designed to actively reduce truck roll-overs and related road accidents.	No serious road-related log transport incidents. Continuous improvement of ForestrySA's log transport contractor safety requirements.
ForestrySA safety culture Focus on improving ForestrySA's safety culture, with improvements driven by staff "ownership" of the program.	Improvements in positive reporting culture, increased reporting of leading indicators and a reduction in workplace incidents.
Work Health Safety Committee Provides a forum for safety issue discussion, a conduit between staff and management and assists in monitoring of ForestrySA's safety program.	New committee elected. Implementation of an improved incident reporting system, providing Health and Safety Representatives with better access to Work Health Safety program data.

## HUMAN RESOURCES CONTINUED

## **WORKPLACE INJURY CLAIMS**

Workplace injury claims	2019-20	2018-19	% Change
Total new workplace injury claims <sup>1</sup>	3	6	-50
Fatalities	0	0	0
Seriously injured workers <sup>2</sup>	0	0	0
Serious injuries Where lost time exceeds a working week, expressed as per worker	1	0	100

 $<sup>^{\</sup>mathrm{1}}$  Includes all new claims, regardless of acceptance, deferment or withdrawal.

## WORK HEALTH AND SAFETY REGULATIONS

Work health and safety regulations	2019-20	2018-19	% Change
Number of notifiable incidents WHS Act 2012, Part 3	0	0	0
Number of provisional improvement, improvement and prohibition notices  WHS Act 2012, Sections 90, 191 and 195	0	0	0

## **RETURN TO WORK COSTS**

Return to work costs <sup>1</sup>	2019-20	2018-19	% Change
Total gross workers compensation expenditure (\$)	111,587	195,110	-42.8
Income support payments - gross (\$)	3,216	2,861	12.4

<sup>&</sup>lt;sup>1</sup> Before third party recovery.

<sup>&</sup>lt;sup>2</sup> Number of claimants assessed during the reporting period as having a whole person impairment of 30% of more under the Return to Work Act 2014 (Part 2 Division 5).

## **HUMAN RESOURCES** CONTINUED

## **EMPLOYMENT OPPORTUNITIES**

ForestrySA ensures its recruitment and selection processes do not discriminate against any applicant.

It remains a member of national, industry-owned forest, wood, paper and timber product industry organisation ForestWorks, which offers services to support skills development within the industry.

The ForestrySA Human Resource Manual and Recruitment Manual continue to support the Human Resources function within ForestrySA with their comprehensive detail and inclusion of all *Disability Discrimination Act 1992* and *Equal Opportunity Act 1991* requirements.

## PERFORMANCE MANAGEMENT AND DEVELOPMENT

Performance management and development	Performance
Biannual staff performance reviews	A total of 43 staff (95.55%) completed reviews during 2019-20

## **EXECUTIVE EMPLOYMENT**

Executive classification	Number
Exec C	1

## **FURTHER REPORTING ITEMS**

### PUBLIC INTEREST DISCLOSURE

On no occasion during 2019-20 was public interest information disclosed to a ForestrySA responsible officer under the *Public Interest Disclosure Act 2018*.

## **FRAUD**

ForestrySA has implemented a number of strategies to control and prevent fraud. Preventative measures include:

- Management reports to the Audit and Risk Committee, a sub-committee of the ForestrySA Board
- South Australian Public Sector Fraud and Corruption Control Policy
- Fraud and corruption, conflict of interest, maladministration and related party disclosures completed by all staff and key management personnel annually
- Financial Management Compliance Program
- Financial delegations
- Regular training and awareness programs
- Internal audit program

During 2019-20, a number of attempts were made by external parties to breach security measures associated with ForestrySA purchase cards. These attempts resulted in a total of seven (7) successful fraudulent transactions.

These transactions were investigated, including by the relevant financial institution, and the total amounts subsequently refunded to ForestrySA.

## **CONSULTANCIES**

The following is a summary of external consultants engaged by ForestrySA, the nature of work undertaken and the actual payments made for the work undertaken during the financial year.

Consultancies	Purpose	Actual payment (\$)
Consultancies with a contract value below \$10,000 each		
All consultancies below \$10,000 each - combined	Various	10,500
Consultancies with a contract value above \$10,000 each		
Tonkin Consulting	Stuctural review	12,700

## **GLOSSARY**

AFAC	Australian Fire and Emergency Services Authorities Council
CFS	Country Fire Service
Community Service Obligations (CSO)	Funding for agreed non-commercial activities provided via ForestrySA's purchasing arrangement with the Minister for Primary Industries and Regional Development and the Treasurer
Conservation	The management of the natural environment to ensure its survival. A term covering preservation, maintenance, restoration and enhancement of the environment
COVID-19 pandemic	A global health crisis which impacted Australia from March 2020
Cudlee Creek bushfire	A significant fire event which occurred in December 2019, affecting more than 102ha of ForestrySA plantation and 350ha of native bushland and resulting in \$1m damage and closure of the popular Fox Creek Bike Park and Cudlee Creek Forest Trails
DEW	Department for Environment and Water
EPA	Environment Protection Authority
FOC	Forest Owners Conference
Forest Reserve	An area of state forest, formally gazetted under the <i>Forestry Act 1950</i> for long-term intent, to be managed for production, recreational, scientific, aesthetic, and environmental or protection purposes
Fox Creek Bike Park	A key bike riding destination containing 48km of multi-use trails and attracting 20,000 visitors a year. Work is underway to reopen and improve the bushfire-damaged site
FWPA	Forest and Wood Products Australia
Giant pine scale (Marchalina hellenica)	A pest insect which attacks by sucking the sap from pine trees, posing significant economic threat to the plantation pine industry
GTFA	Green Triangle Fire Alliance
ha	Hectare/s
Industrial log	A secondary grade, behind prime sawlog
ICT	Information and Communications Technology
Lead Team	ForestrySA's key management personnel
LiDAR	Light Detection and Ranging. A remote sensing technology adapted by ForestrySA to assess the productivity of forest plantations

Native forest	Forest consisting of native tree and other
Native forest	species that are endemic to South Australia
Native Forest	An area of proclaimed Forest Reserve that
Reserve	has been further proclaimed as a Native Forest Reserve under the <i>Forestry Act 1950</i>
	specifically for the conservation of native
	flora and fauna
PIRSA	The Department of Primary Industries and
5 11 1	Regions South Australia
Prescribed burning	Planned use of fire in a predetermined area, with an intensity and rate of spread
burning	designed to achieve specific results,
	including promoting biological diversity,
	reducing the volume of flammable fuels
Preservation log	Small diameter log used for the production of posts
Pulpwood/log	Logs below sawlog quality but suitable
	for manufacturing pulp, paper and panel
Residue	Post-harvest burns carried out in
burning	commercial forest to reduce fuel loads and
J	prepare the site for the next crop
Responsible	The internationally recognised forestry
Wood	standard (AS 4708), to which ForestrySA is certified in the Green Triangle and Mount
	Lofty Ranges
SAFC	South Australian Forestry Corporation
Salvage	Harvest operations carried out in areas
operations	affected by fire
SA Water	South Australian Water Corporation
Sawlog	A log for processing into sawn timber
SBCC	State Bushfire Coordination Committee
woodwasp	A pest insect which attacks pine trees, devastating plantations. Effective biological
(Sirex noctilio)	control measures have kept sirex at low levels
Thinning	Removing some trees within a plantation
	to reduce competition and thus improve
	or maintain growth and health of those remaining
Timber	
rimber	The general term used to describe sawn wood suitable for building and other
	purposes
Watercourse	An area of land designed to protect a
and wetland	wetland or watercourse
buffer zone	
WHS	Work Health and Safety

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