



AGENDA

Ordinary meeting of the

Commercial Subcommittee

Tuesday 5 May 2015

**Commencing at the conclusion of the Works and Infrastructure
Committee meeting**

Ruma Mārama

Level 2A, Civic House

110 Trafalgar Street, Nelson

Membership: Mr John Murray (Chairperson), Her Worship the Mayor Rachel Reese, Councillors Luke Acland and Gaile Noonan, and Mr John Peters

Guidelines for councillors attending the meeting, who are not members of the Committee, as set out in Standing Orders:

- All councillors, whether or not they are members of the Committee, may attend Committee meetings (SO 2.12.2)
- At the discretion of the Chair, councillors who are not Committee members may speak, or ask questions about a matter.
- Only Committee members may vote on any matter before the Committee (SO 3.14.1)

It is good practice for both Committee members and non-Committee members to declare any interests in items on the agenda. They should withdraw from the table for discussion and voting on any of these items.

1. Apologies

Nil

2. Confirmation of Order of Business**3. Interests**

3.1 Updates to the Interests Register

3.2 Identify any conflicts of interest in the agenda

4. Public Forum**5. Confirmation of Minutes****GOVERNANCE****6. Nelson City Council Forestry Estate Review****5 - 17**

Document number R4173

Recommendation

THAT the report Nelson City Council Forestry Estate Review (R4173) and its attachment (A1345166) be received;

AND THAT the Nelson City Council forestry estate review proceeds with further information being gathered and a recommendation and possible actions for Nelson City Council forestry activities to be brought to the Commercial Subcommittee by August 2015.

PUBLIC EXCLUDED BUSINESS

7. Exclusion of the Public

Recommendation

THAT the public be excluded from the following parts of the proceedings of this meeting.

The general subject of each matter to be considered while the public is excluded, the reason for passing this resolution in relation to each matter and the specific grounds under section 48(1) of the Local Government Official Information and Meetings Act 1987 for the passing of this resolution are as follows:

| Item | General subject of each matter to be considered | Reason for passing this resolution in relation to each matter | Particular interests protected (where applicable) |
|-------------|--|---|---|
| 1 | Property Assets Review | Section 48(1)(a) The public conduct of this matter would be likely to result in disclosure of information for which good reason exists under section 7 | The withholding of the information is necessary: <ul style="list-style-type: none">• Section 7(2)(h) To enable the local authority to carry out, without prejudice or disadvantage, commercial activities |

8. Re-admittance of the public

Recommendation

THAT the public be re-admitted to the meeting.

Note:

- **Lunch will be provided.**

Nelson City Council Forestry Estate Review

1. Purpose of Report

- 1.1 To update the Commercial Subcommittee on a strategic review being undertaken of the Nelson City Council (NCC) forestry estate.

2. Delegations

- 2.1 The Commercial Subcommittee has the appropriate delegations to receive this update as they provide strategic governance, advice and direction to ensure the maximisation of Council's property portfolio including forestry.

3. Recommendation

THAT the report Nelson City Council Forestry Estate Review (R4173) and its attachment (A1345166) be received;

AND THAT the Nelson City Council forestry estate review proceeds with further information being gathered and a recommendation and possible actions for Nelson City Council forestry activities to be brought to the Commercial Subcommittee by August 2015.

4. Background

- 4.1 There were three main drivers that led to a review of forestry being proposed.
- 4.1.1 Forestry activities were seen as a key contributor to sediment in the Maitai River catchment and NCC are one of the main forest owners; and
- 4.1.2 The need for Council to understand return on investment across Council activities, including forestry; and
- 4.1.3 Concerns were raised about the lack of forestry specific expertise within the Council.

- 4.2 LandVision with Moore & Associates were contracted in 2014 to produce two reports; one that focussed on and reviewed forestry regulation practices across the Nelson region and secondly one that focussed on and reviewed forest management and practices undertaken in the NCC forestry estate.
- 4.3 This report focuses on the NCC forestry estate review report, which is included as attachment 1. The report regarding forestry regulation will be separately reported as part of the Nelson Plan process.
- 4.4 The report highlights the need for Council to review the strategic approach to its forestry estate.
- 4.5 Thirteen recommendations are included in the NCC forestry estate report. The recommendations are divided into governance/structure, operational, financial, risk management and Emissions Trading Scheme. These recommendations can be found on pages 4, 5, 6 and 7 in attachment 1.
- 4.6 The report (on p13) refers to Statement of Intent. This is not a reference to the LGA; rather the 'authors' way of indicating the need to give clear direction on desired outcomes.

5. Discussion

Review Process

- 5.1 A group of NCC staff with qualifications and/or experience in forestry recently met to scope out what a strategic review of the NCC forest estate would look like and identify any information needs.
- 5.2 Given the need for good information to move the review forward, it was decided to gather the information below and then to come together again; this information is being pulled together by June 2015.
- 5.3 Information needs identified:
 - 5.3.1 Drivers for Council having a forest estate (e.g. income, recreational use, water catchment protection, all of the above).
 - 5.3.2 Financial analysis of the forest estate.
 - 5.3.3 An understanding of the various management/ownership structures implemented by other councils.
 - 5.3.4 Harvest and forestry/estate operations planning information (understanding budget and timing of operations).
 - 5.3.5 Strategic overview of forest locations and individual forest values.

- 5.3.6 Public attitudes towards an exotic vs. native resource.
- 5.3.7 Costs associated with exotic vs. native forest establishment and maintenance.
- 5.3.8 Viable options for alternative species and alternative land uses.
- 5.3.9 Potential impacts of any Treaty Settlement claims.
- 5.3.10 What support was required by staff to manage the forest asset to meet Council's strategic direction and goals.
- 5.3.11 Current and future ETS obligations, including potential returns and liabilities.
- 5.3.12 Potential impacts of the proposed NES for forestry.
- 5.3.13 Risks to the estate from weather events, forest health or fire – what actions to mitigate these events are currently in place and what are the Council's insurance arrangements should something happen – do we meet the conditions for cover set out in the insurance policy?
- 5.3.14 Risks to Council through public access, health and safety non-compliance or incidences.

6. Options

Option One: That staff proceed to gather further information to support a strategic review of the Council's forestry estate.

- 6.1 This is the recommended and preferred option; this information is required to ensure the ability to undertake the appropriate discussions and to provide for well considered recommendations. This needs to be completed in a timely manner.

Option Two: Undertake the strategic review with current information only.

- 6.2 Some important information gaps have been highlighted and therefore limited ability to undertake an informed strategic review. A strategic review of an important Council asset without all of the facts is a risk to the organisation.

7. Alignment with relevant Council policy

- 7.1 The recommendation to proceed with further information gathering and a recommendation and possible actions for NCC forestry activities does not contradict any Council policy or procedure.
- 7.2 The NCC forestry estate review supports the following Council outcomes:

- Our unique natural environment is healthy and protected.
- We are able to rapidly adapt to change.
- Our urban and rural environments are people-friendly, well planned and sustainably managed.
- Our communities have access to a range of social, educational and recreational facilities and activities.
- Our communities are healthy, safe, inclusive and resilient.
- Our Council provides leadership and fosters partnerships, a regional perspective, and community engagement.
- Our region is supported by an innovative and sustainable economy.

8. Assessment of Significance against the Council's Significance and Engagement Policy

- 8.1 As there are no decisions that will impact on the Council's forestry asset at this stage, it is not deemed significant under the Council's Significance and Engagement Policy.

9. Consultation

- 9.1 To date only internal discussions have occurred and information gaps identified. Consultation with other parties including forestry companies will take place and be reported back in August 2015.

10. Inclusion of Māori in the decision making process

- 10.1 No specific consultation has taken place with Māori.

11. Conclusion

- 11.1 Nelson City Council has 624.2ha of exotic forestry managed as production forests within a total of 896.8ha; the remainder is managed through the Council's Operations business unit. Forestry is an investment and provides revenue when the forests are harvested, maintains soil conservation in catchments for most of the rotation and provides additional recreational, economic and social values.
- 11.2 Forestry activities are also seen as being one of the main contributors to sediment entering waterways.
- 11.3 This is also an industry under the spotlight regarding health and safety in the workplace.

- 11.4 To enable the Council to be better informed, to set clear objectives and establish long term goals as a forest owner, it is recommended that the strategic review of the Council's forestry estate continues as planned.

Dean Evans

Manager Environmental Programmes

Attachments

Attachment 1: A1345166 - LandVision with Moore & Associates, Review of NCC
- 5 May 2015

Review of NCC Forestry Estate

October 2014



October 2014

1 SUMMARY

Nelson City Council owns 896.8 ha of exotic forestry in thirteen blocks. Four of these blocks (624.2 ha) are currently managed as commercial production forest. The NCC forests have other functions also including recreational, aesthetic (landscape), environmental, catchment protection and water supply.

The Environmental Reserves Supervisor oversees all aspects of the forestry asset (including a further 10,500 ha of indigenous bush and scrub) and the management of the commercial forests is contracted to PF Olsen Ltd.

This report is only an “umbrella snapshot” of the NCC forestry estate. It does however show that there are significant opportunities for improvement, strategic direction, and cost savings for NCC in the management of their Forestry Estate.

There is currently no overriding structure in place to set clear directions or challenge management proposals or decisions. This is further complicated by the fact that none of the forestry blocks have a Statement of Intent. The Asset Management Plan currently being drawn up may address some of these issues provided there are linkages between all users. The Statement of Intent for the individual blocks needs to clearly identify the use of the forestry assets and the values of all user parties. It also needs to include financial implications such as a Return on Investment (ROI) not only on a commercial basis but also for infrastructural and recreational pursuits.

A possible solution is to have a Forestry Board that encompasses all the attributes of the NCC Forest asset. It does not have to be large but must be functional and be able to give political and professional support to NCC's staff on the diverse range of forestry related matters. It must also be able to justify a financial return to NCC ratepayers for all of these attributes.

The operational side is undertaken by PF Olsen Ltd. PF Olsen is a reputable firm nationwide with strong quality systems in place. The contract is due for renewal in 2016 and appears to be functioning well at a primary level; however there are areas where considerable improvement could be made. PF Olsen Ltd pretty much have ‘free run of the forest’. They appear to be driving the direction. There is very little financial evaluation or justification taking place. Although the Environmental Reserves Supervisor is multi-talented and capable of making sound operational decisions, more professional support would give him the confidence to ensure the right decisions are being made. The current contract with PF Olsen also needs to be contestable for accountability purposes.

On the financial side the forestry is being run as a closed account with funding, by way of loans, as and when finance is required. The commercial forestry currently has a very high debt to equity ratio when considered against the value of the forestry asset. There appears to be no Return on Investment that can be challenged as an expectation or goal, or be monitored against. Further to this the true costs of the individual land users need to be accounted for so as to reflect the true performance of the forest. A ‘whole of life’ financial analysis needs to be done. To do this requires individual cost centres to be set up.

Considerable effort is being put into health and safety from both PF Olsen and NCC, particularly around harvesting and managing the public. NCC needs to continuously audit this to ensure it is meeting its own H&S responsibilities and obligations particularly around recreational use. It also needs to continually ensure its public liability issues are covered.

2 TABLE OF CONTENTS

| | | |
|----|--------------------------------------|---|
| 1 | SUMMARY | 1 |
| 2 | TABLE OF CONTENTS..... | 2 |
| 3 | BACKGROUND INFORMATION | 3 |
| 4 | PURPOSE | 3 |
| 5 | OVERVIEW | 3 |
| 6 | GOVERNANCE/STRUCTURE | 4 |
| 7 | OPERATIONAL | 5 |
| 8 | FINANCIAL | 5 |
| 9 | RISK MANAGEMENT..... | 6 |
| 10 | EMISSIONS TRADING SCHEME (ETS) | 7 |
| 11 | APPENDIX 1: PEOPLE CONSULTED | 7 |

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3 BACKGROUND INFORMATION

LandVision Ltd and Moore & Associates Limited were requested to undertake a review of Nelson City Council's (NCC's) forest estate. The initial review as per the appended brief was found to be too soon and it was agreed with Alistair Beveridge that it should be a "high level – umbrella" review. The review commenced with a joint workshop including relevant NCC Staff and PF Olsen Operations Managers and that was followed by site inspections & interviews.

This initial perspective is not a comprehensive detailed summary of any one aspect but more an awareness of areas that need to be examined further once some overall direction has been established.

4 PURPOSE

The purpose of this report is to:

- Give an overview of the NCC forestry estate with particular focus on the commercial stands.
- Comment on the current governance/structure and provide some future direction for the way forward.
- Outline the operational management and comment on opportunities for improvement.
- Broadly look at the financial setup, outline any areas of concern and consider opportunities for improved efficiency and consideration.
- Comment on the current risk management and offer recommendations for reducing risk.
- Give an overview of the Emissions Trading Scheme and NCC's commitment.

5 OVERVIEW

Nelson City Council owns 896.8 ha of forest estate in thirteen different blocks. Of this approximately 624.2 ha in four blocks (Maitai, Marsden, Brook and Roding) is currently managed as commercial production forest. The management of the commercial forests are contracted to PF Olsen Ltd and overseen by the Environmental Reserves Supervisor.

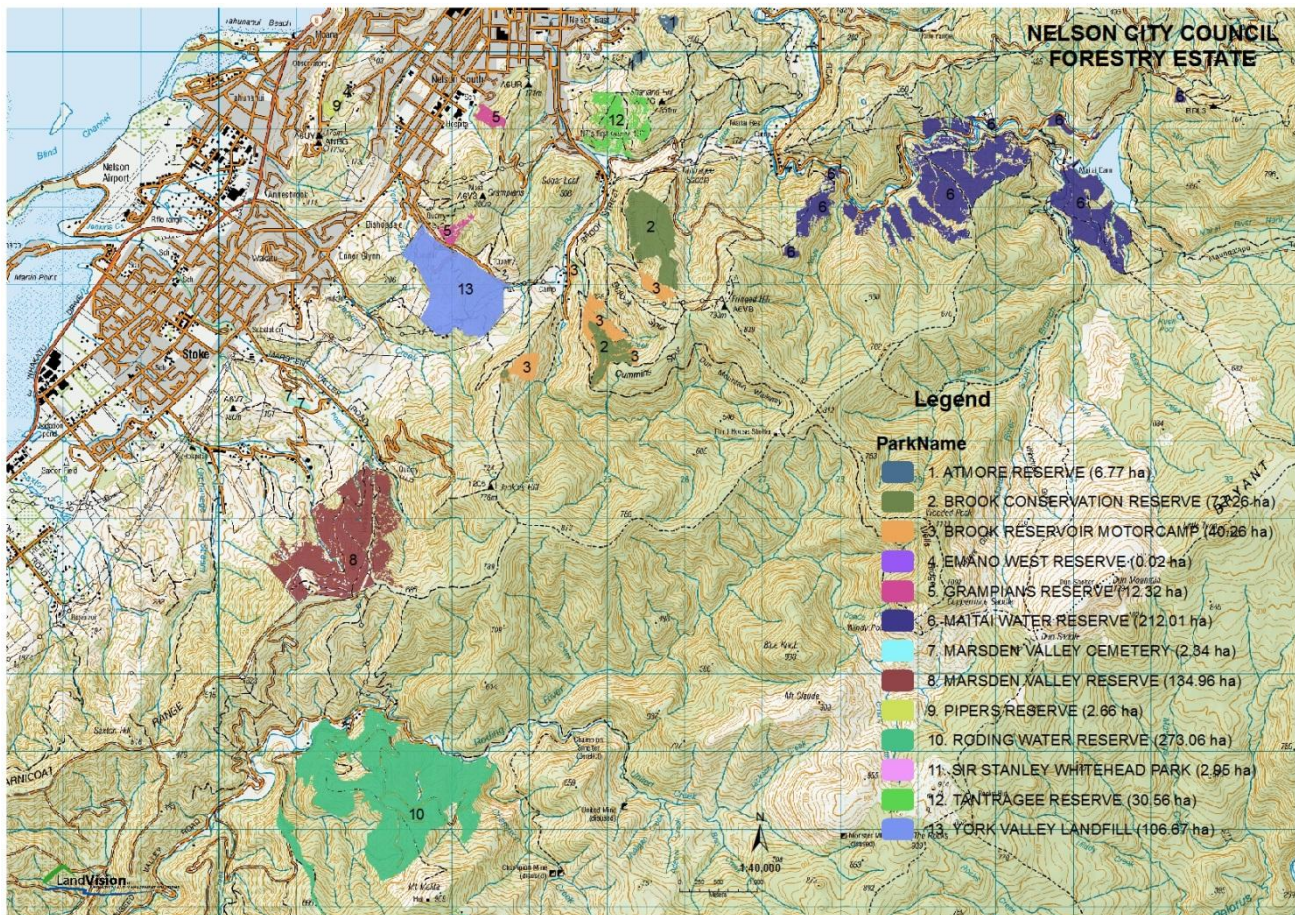
The other major functions of the NCC forests include recreational, aesthetic (landscape), environmental, catchment protection and water supply. The forest resource presents a complex range of issues, all separate in identity, but all interrelated. There is currently no one structure within NCC that brings all these aspects together under the one umbrella.



At an operational level the council's Environmental Reserves Supervisor plays the primary role in keeping the forestry works and processes underway. The Decisions at the operational level are clearly hindered by the lack of a suitable management structure to provide vision and support.

The community hold strong views about aspects of the forestry asset also, including access and visual impacts. These also need to be taken into account.

In conjunction with NCC's exotic forestry estate, there is also a further 10,500 ha approximately of indigenous bush and reverting scrublands that is also managed by the Environmental Reserves Supervisor (ERS).



6 GOVERNANCE/STRUCTURE

The current forestry management is undertaken by PF Olsen in liaison with the Environmental Reserves Supervisor from NCC. There appears to be no overarching structure to the development, maintenance and monitoring of the forest asset resource. The endeavours of other interested parties and user groups are not being accounted for beyond the Operations Manager level. There is little, if any, linkage through to the senior management team and the level of knowledge of forestry activities appears to be diluted as it progresses up the chain. This lack of integration, particular interest and knowledge is countered by a strong public affinity with the resource.

As a result of no overarching structure there is no clear direction or statement of intent for NCC's individual blocks.

The Asset Management Plan currently being drawn up has recognized many of the topics raised in the initial workshop covering the forestry assets. However, the formality of coordinating those links of infrastructural needs (water) with recreational and commercial aspects, is currently missing.

Recommendations:

- Investigate and setup a management or governance structure that encompasses all facets of the forest. This group need not be large but must be functional.
- The first function of the governance group needs to be to produce a Statement of Intent for the forestry estate. From this the direction for each block can be set for Environmental Reserves Supervisor or appropriate person.

- The Statement of Intent needs to clearly identify the use of the forestry assets and the values of all user parties. It also needs to include financial implications such as a Return on Investment (ROI) not only on a commercial basis but also for infrastructural and recreational pursuits.

7 OPERATIONAL

Most of the physical works are undertaken by PF Olsen in liaison with the Environmental Reserves Supervisor. PF Olsen is a reputable firm nationwide with strong quality systems in place. This contract appeared to be functioning well at a primary level; however there were areas where considerable improvement could be made.

Although the PF Olsen has sound environmental standards and procedures in place, these appear generic rather than site specific. An example would be the forest reestablishment and silviculture regimes currently on the NCC Blocks. At present these decisions are being largely driven by PF Olsen with little strategic input from NCC. While the current ERS staff member is considered to be highly competent in his role, there is a need to question some of the decisions being made at a ground-based level by NCC. This endorses the need for both a management body and a peer review perspective on forestry management and activities.

In discussions with PF Olsen they appear to be more 'contractor' focused than client focused. Their primary aim appears to be having a continuum of work for their contractors rather than undertaking operations that are focused on maximizing profit or operational timing.

There are also examples in the NCC forest blocks where small groups of mature trees were left standing after harvesting because PF Olsen or the contractor deemed them too difficult to extract or for health and safety reasons. NCC should be remunerated for these trees and provisions need to be incorporated into contracts prior to commencing works.

The contract with PF Olsen is up for renewal in 2016 and as it stands it appears to be non-contestable and non questionable. Contestability will ensure NCC is getting the best service for the price they are paying. The current structure inhibits the ability the challenge regimes etc as decided by PF Olsen. An example of this was the recent wind damage experienced in the Roding Block where the collapse of low density plantings of high GF rated seedlings in densely weed infested country occurred. Low GF rated trees and at a higher density would be more suited to such sites.

Very little financial evaluation or justification is taking place with regards to PF Olsen's costs. For example Contractual costs, including establishment costs, appear on the annual valuation to have increased substantially over the last one to two years, and look on average to be quite high. There seems to be no substantive explanation in the annual valuation and no reporting from PF Olsen as to the cause of this.

Recommendations

- A more in depth analysis of the Forest Management Contract is required. The renewal of the contract in 2016 needs to include more accountability and making it contestable.
- Professional support on operational matters needs to be provided to the NCC's Environmental Reserve's Supervisor to give him the confidence that the right decisions are being made.
- That more strategic direction from NCC needs to be developed and thus provide more direction and support to the Environmental Reserve's Supervisor.

8 FINANCIAL

The forestry operation en masse appears to be run as a closed account with funding, by way of loans, as and when finance is required. The loan currently stands at \$2.1 million which is a very high debt/equity ratio when

considered against the commercial forestry side of the operation. A 'whole of life' financial analysis has not been forthcoming and may have not even been done. Clearly there has been no expectation of a Return on Investment from the commercial side of the forestry operations. There is, therefore, no Return on Investment present that can be challenged as an expectation or goal, or be monitored against.

Offsetting this is the complexity of the financial value or worth of the forest's 'other' values, beyond commercial forestry (such as recreation). There is a critical need to assign a Return on Investment to the multiple other uses of the NCC forest resource, both environmental and commercial. This will allow a more accurate measure of the actual returns on the land and crop assets in question, and provide a more accurate summary of the worth of these assets to NCC and the community.

Recommendations

- Having defined the characteristics and values for each of the different land management types or forest users, that individual cost centres are established that show true costs for each landuse, which are financially accountable.
- Forestry and the individual blocks need to be operated on a Return on Investment. When calculating the Return on Investment for the individual blocks uses other than the commercial forestry (such as recreational etc) need to be incorporated.
- That financial data be benchmarked against approved budgets in order to form part of a far more rigorous performance standard and outcomes assessment. At the very minimum, budgets should be justified and understood and agreed to by the ERS.

9 RISK MANAGEMENT

Considerable and increased effort is being put into Health & Safety facets of forest management, particularly harvesting operations by PF Olsen. Evidence was produced by PF Olsen of some aspects of pre-harvest assessment and the H&S policy is also applicable to the provision of safe access for the large number of recreationalists. While the contractor's H&S policy appears to be robust there is still a need for NCC to audit the council's H&S responsibilities and obligations on their own land. In particular, there needs to be a special focus on recreational aspects and ensure public liability issues are covered.

As discussed above, there is currently a heavy reliance on the Environmental Reserves Supervisor to manage the many facets of the NCC forest assets. While the current employee is multi-talented, and capable of making sound operational decisions, from establishment and species choice through to weeds and pest control, there is a risk associated with relying heavily on the competencies of one staff member with little support and no peer review. It would be beneficial, at very least, for the ERS to receive professional development or advise in relevant forestry management topics.

Such training is ostensibly required for PF Olsen staff to undertake. However, subjects like the best silvicultural regime, optimum harvest timing and contract negotiation does require a higher level of input and decisions should be made by the ERS supported by professional advice. There is currently an over-riding reliance on the ERS to provide these services. This leaves the Council considerably at risk should the current employee leave.

Other areas of concern that also need to be addressed by NCC include the potential spread of wilding conifer trees, particularly from the Marsden Valley Douglas Fir block and mature exotic trees being situated very close to residential development posing a high risk for fire or wind throw. A suitable buffer zone or fire-break may need to be considered in future rotations. The threat of fire, disease, or weed and pest infestations, are all continuing risks associated with the forestry resource that NCC need to ensure they are adequately monitoring and undertaking preventative measures for.

Recommendations:

- Review PF Olsen's Health and Safety Policy with respect to NCC's responsibilities and liability. Ensure all aspects of Public Liability are covered.
- Ensure the Environmental Reserves Supervisor is adequately supported with external forestry advice, internal policy and direction, and relevant professional development opportunities.

10 EMISSIONS TRADING SCHEME (ETS)

From the information provided, it appears that NCC is not fully aware of its entire commitment to the ETS.

PF Olsen's July 2011 Management Plan suggests that "the current policy is to retain the credits, however a strategy on managing the sale/purchase of future credits will need to be developed..." This has not been done.

It is unsure why NCC entered into the post 1989 scheme. There appears to be no summary of allocation/disbursement of units or potential ongoing obligations from the proposed Landfill project. There looks to be no analysis of future commitments for the landfill project or resolutions concerning the sale or off setting of currently held units." It is assumed such would be an integral part of either a "life cycle" financial analysis or the LTCCP process.

This is a subject that would or could be the brief of an overriding land management-forestry board that could look at the strategic importance and financial considerations of such.

Recommendations

- Prepare a summary document showing ongoing liabilities with the landfill and financial analysis about the sale/holding/purchase of the ETS units currently allocated.
- That such deliberations be part of the responsibilities of any incoming forest committee

11 APPENDIX 1: PEOPLE CONSULTED

The following people were consulted in the undertaking of this review:

| | |
|--|---|
| <ul style="list-style-type: none"> • Forestry workshop | <ul style="list-style-type: none"> • NCC: Lindsay Barber, Lynne Hall, Reuben Peterson, Michael Homan, Sharon Flood, Gary O'Shea (NCC Operations) • EIL: Stephen Lawrence, Neil Henderson • PF Olsen Ltd: Brendan Horrell, Dave Finch |
| <ul style="list-style-type: none"> • Other meetings | <ul style="list-style-type: none"> • Lindsay Barber, Andrew Petheram, Andrew Bishop, Paul Fisher, Allan Tolland (NCC Water Engineers) |
| <ul style="list-style-type: none"> • PF Olsen Ltd | <ul style="list-style-type: none"> • Brendan Horrell, Dave Finch |