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## **Duthie Joint Venture McKay Joint Venture**

### **FINAL STATEMENT OF INTENT FOR THE TWO FORESTRY JOINT VENTURES DUTHIE AND MCKAY FOR THE YEAR ENDED 30 JUNE 2021**

Under the Forestry Rights Registration Act 1983, the Council has two Joint Venture Forestry Agreements. These are:

McKay joint venture	Established in 1995	Located at Ahititi
Duthie joint venture	Established in 1997	Located at Ararata (Hawera)

The joint ventures with the two partners are for an agreed share in the forestry harvest returns. The joint ventures were originally aimed at complementing the Council's own ongoing forestry activities.

The two joint ventures listed above are council-controlled organisations (CCO) as defined in the Local Government Act 2002 (LGA 2002). The ownership and operation of the joint ventures is as follows:

#### Duthie joint venture

New Plymouth District Council	54.82%
J L & G C Duthie	45.18%

#### McKay joint venture

New Plymouth District Council	56.50%
R B McKay & Others	43.50%

Each joint venture is covered by a formal legal document that specifies the details of the Agreement. The key factor in each of the Agreements is the ratio of return to each party upon the harvesting of each forest. Harvest returns are expected at the midlife of each forest (15-18 years) for production thinning and at maturity of each forest (25-35 years) for clear felling. The ratio of returns is calculated by comparing all costs to both the land owner and the Council (as owner of the trees) throughout the life of each forest. These inputs determine the respective percentages of return from sales of forest produce.

As each agreement has been negotiated between the joint venture partners there are variations in each document. A "combined" draft Statement of Intent is considered appropriate as the variations are minor.

The Duthie and McKay joint ventures are currently in the growth phase of the lifecycle. Activity in these joint ventures include the ongoing management of trees in accordance with accepted silvicultural practice.

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## **OBJECTIVES**

The objectives of each joint venture are to tend and manage the forests in accordance with the best principles of Silviculture to produce high quality saw logs for harvesting and to provide the New Plymouth District Council and the industry within the district a secure supply of saw logs. This activity complements the Council's own forestry investment activities.

## **CONTRIBUTION TO COMMUNITY PRIORITIES**

These joint ventures are examples of public-private partnerships that enhance the growth and economic development of the district resulting in employment growth and creation of business opportunities. In addition, forestry enhances the environment thereby improving the quality of life of the district's residents.

## **GOVERNANCE**

Management and control of the two forestry joint ventures is vested in the Council. The Council governance is performed through the CCO Committee and the Council. The Council's Chief Executive is accountable to the Council for the operations of the two forestry joint ventures.

## **NATURE AND SCOPE OF ACTIVITIES TO BE UNDERTAKEN**

The joint ventures will establish and maintain (and eventually harvest) forests of approximately the following sizes, in the following areas:

McKay joint venture	Ahititi	83.5 hectares
Duthie joint venture	Ararata (Hawera)	22.7 hectares

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## **RATIO OF CAPITAL TO TOTAL ASSETS**

The ratio of joint ventures funds (capital) to total assets is expected to be 100 per cent for the next three years. The joint venture capital includes:

- Retained earnings
- Reserve funds
- Capital account

Total assets include the value of forestry.

## **ACCOUNTING POLICIES**

The policies will be consistent with:

- The Joint Venture Deeds of Agreement and partnership accounting principles.
- The Financial Reporting Act 2013.
- New Zealand Generally Accepted Accounting Practise (NZ GAAP).
- New Zealand International Reporting Standards issued by the External Reporting Board.
- External Reporting Board pronouncements.

## **PERFORMANCE TARGETS**

The joint ventures performance will be judged against the following measures:

### **Duthie joint venture**

#### **1. Financial performance**

	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>
	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>
(a) Net operating deficit	(7)	(7)	(7)
(b) Council funding support	7	7	7
(c) Net equity*	413	413	413

\* Net equity is based on forestry valuations at 30 June 2019. There is insufficient data to make reliable estimates for future years given fluctuating exchange and commodity prices.

#### **2. Silviculture and harvesting**

The performance of the joint venture is measured by ensuring that the trees are managed in accordance with accepted silvicultural practice. The Agreement sets out the following regime:

- plantation thinned to 300-500 stems per hectare; and
- between 300-500 stems pruned in three stages to 6.0 metres.

Harvesting is not anticipated until 2024 and is dependent on tree growth and log prices which may either bring forward or delay the harvesting process. No

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silvicultural activities other than inspection and maintenance are required during 2020/21.

## **McKay joint venture**

### **1. Financial performance**

	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>
	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>
(a) Net operating surplus/(deficit)	(7)	(7)	1,691
(b) Council funding support	7	7	9
(c) Net equity*	1,202	1,202	-

\* Net equity is based on forestry valuations at 30 June 2019. There is insufficient data to make reliable estimates for future years given fluctuating exchange and commodity prices.

### **2. Silviculture and harvesting**

The performance of the joint venture is measured by ensuring that the trees are managed in accordance with accepted silvicultural practice. The Agreement sets out the following regime:

- (a) planting at 833 stems per hectare;
- (b) plantation thinned to waste to 360 stems per hectare at age 7 years; and
- (c) pruning of 360 stems per hectare to 6.5 metres at age 7 years.

Harvesting is not anticipated until 2022/23 and is dependent on tree growth and log prices which may either bring forward or delay the harvesting process. Upgrading farm tracks for logging trucks will be required in advance of harvesting. No silvicultural activities other than inspection and maintenance are required during 2020/21.

## **DIVIDEND POLICY**

Until the joint ventures reach a stage where timber is able to be sold no return will be made to the owners by way of a dividend.

## **INFORMATION TO BE PROVIDED**

The following information will be made available:

- A final Statement of Intent including an annual budget, for inclusion in the Council's Annual Plan process.
  - A Statement of Intent prior to the commencement of each financial year.
  - A six-monthly report on operations, including a comparison against the Statement of Intent and the budget within two months of the end of the first half of the financial year.
  - An Annual Report for the year which will also be made available to the public within three months of the end of each financial year.
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## **PROCEDURES FOR SHARE ACQUISITIONS**

Not applicable in this case.

## **ACTIVITIES FOR WHICH COMPENSATION IS SOUGHT**

There are no activities for which compensation is sought from the joint ventures. It is noted that under each Joint Venture Agreement the Council is responsible for funding the operational costs, including silviculture.

## **COMMERCIAL VALUE OF THE PARTNERS' INVESTMENT**

The commercial value of the partners' investment in the joint ventures is estimated as equal to each joint ventures partners' capital. This is based on:

- (a) the rationale that each joint venture is a going concern; and
- (b) the fact that total assets are carried at their current net value as determined by independent valuers on an annual basis.

This estimate will be reassessed in the same manner on an annual basis. There is insufficient reliable data to make reliable estimates for future years given fluctuating exchange and commodity prices.

As at 30 June, the joint venture partners' capital values were (pre-tax):

	<b>2019</b>	<b>2018</b>
McKay and Others joint venture	\$1,202,047	\$1,006,300
Duthie joint venture	\$412,945	\$349,864

## **CAPITAL EXPENDITURE FORECASTS**

There are no anticipated capital expenditure projects over the next three years.

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