



Notice is given of a Forestry Committee Meeting to be held on:

Date: Tuesday, 22 November 2016

Time: 9:30am

**Location: Council Chambers
Fairlie**

AGENDA

Forestry Committee Meeting

22 November 2016

**Wayne Barnett
Chief Executive Officer**

Forestry Committee Membership:

The purpose of local government:

(1) The purpose of local government is—

- (a) to enable democratic local decision-making and action by, and on behalf of, communities; and
- (b) to meet the current and future needs of communities for good-quality local infrastructure, local public services, and performance of regulatory functions in a way that is most cost-effective for households and businesses.

(2) In this Act, good-quality, in relation to local infrastructure, local public services, and performance of regulatory functions, means infrastructure, services, and performance that are—

- (a) efficient; and
- (b) effective; and
- (c) appropriate to present and anticipated future circumstances.

(Local Government Act 2002)

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- 1 OPENING**
- 2 APOLOGIES**
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6 REPORTS

6.1 FORESTRY COMMITTEE MINUTES 30 AUGUST 2016

File Reference: N/A

Authoriser: Wayne Barnett, Chief Executive Officer

Attachments: 1. Forestry Committee 30 August 2016

PURPOSE OF REPORT

That the minutes of the meeting of the Forestry Committee held on 30 August 2016 be confirmed as a true and accurate record of the meeting.

STAFF RECOMMENDATIONS

1. That the report be received.
2. That the minutes of the meeting of the Forestry Committee held on 30 August 2016 be confirmed as a true and accurate record of the meeting.

WAYNE BARNETT
CHIEF EXECUTIVE OFFICER

MACKENZIE DISTRICT COUNCIL

MINUTES OF A MEETING OF THE MACKENZIE FORESTRY BOARD HELD IN THE COUNCIL CHAMBERS, FAIRLIE, ON TUESDAY, AUGUST 29, 2016 AT 9.02AM.

PRESENT:

Cr Graham Smith (Chair)
Cr Murray Cox
Cr Evan Williams

IN ATTENDANCE:

Wayne Barnett (Chief Executive)
Paul Morris (Manager Finance)
Kevin O'Neill (Forestry Manager)
Cr Leslie observing 9:18am
Keri-Ann Little (Committee Secretary)
Terry O'Neill (District Forester, attending by conference phone)
Daisy Hudson (Timaru Herald)

APOLOGIES:

There were no apologies.

DECLARATIONS OF INTEREST:

There were no declarations of interest.

MINUTES:

Resolved that the minutes of the meeting of the Mackenzie Forestry Board held on June 7, 2016, be confirmed and adopted as the correct record of the meeting.

Chair/ Cr Williams

The Chair expressed his disappointment that the Muricata at Simons Pass had not yet been harvested. He added discussion with Terry O'Neill will take place via teleconference.

The Chair asked for an update from Kevin O'Neill regarding Forestry lease agreements. Kevin O'Neill said he had reviewed the Forestry lease agreements and noted minor changes and updates were required.

REPORTS:

1. FINANCIAL REPORT – MAY AND JUNE 2016:

The Chief Financial Officer reported the financial performance of the Forestry Board as a whole for the period ending April and May 2016.

The Chair highlighted a good Forestry financial report.

Mr Morris spoke to the report outlining other income, other gains and losses, internal interest income and asset impairment and reported a 3.4 Million dollar profit in Forest values. He said this can be contributed to the rise of growth and other distributing factors which Mr Morris explained.

Mr Morris reported the internal interest income will be higher than budgeted.

The Chair expressed concerns regarding the sustainability of Council Forest's.

The Chair noted that there are two issues rabbits and wilding pines. He said it is a very good result. He thanked Mr Morris for his report and the way in which it was displayed.

Resolved that the report be received

Cr Jackson/ Cr Cox

The Chair welcomed District Forester Terry O'Neill via teleconference at 9:22am.

2. FORESTRY MANAGER'S REPORT APRIL AND MAY 2016:

Kevin O'Neill provided the Board with his time and travel log for April and May 2016.

Mr O'Neill reported that the small Forestry block at Cannington had been replanted quickly. He added that the replanting at Cave had provided a 100 percent take. He said there was no positive news to report regarding the Muricata harvest at Simons Pass and added that Terry O'Neill was continuing investigations regarding the engagement of contractors.

3. CARBON CREDITS:

Terry O'Neill reported that Council had just over half of Council's forest estate (568ha) registered in the Emissions Trading Scheme (ETS). After some initial sales of carbon credits in 2010 and 2011 the carbon markets drop dramatically. Over the last year the carbon price had recovered to a point where the sale of carbon credits needs to be considered again. He recommended to Council to sell a portion of its carbon credits while credits remain \$18/unit or over. He added to improve cash flow for Council it would make sense to sell many units. He said he does not think there is much point in banking credits for the future when Council still had carbon credits coming in as harvesting.

The Chair asked how many carbon credits would be required to be kept to cover costs.

Mr O'Neill said there is a case for having some carbon credits banked for liabilities, fire or wind storm. He noted there is an option regarding Council's Douglas Fir resource to either delay harvest or look at other types of harvest, this enabling liabilities to be reduced.

The Chair asked how many carbon credits grow each year. Mr O'Neill said about 22,000 units are generated every year which accumulates to \$400,000. Mr O'Neill noted carbon credit prices had increased \$7-8 a month and are now stable at \$18 a unit.

The Chair said there is nothing wrong with playing the market as done previously. Council had to be mindful of liabilities.

Cr Cox asked if the Board could review the sale of carbon credits in isolation with the investment policy, why Council require the money. He added the sale of carbon credits requires further discussion.

The Chair said he feels the Board should make the decision and should be making a recommendation to Council that the Board sell some Carbon Credits.

Mr Barnett said this is a wider discussion and there are implications for wider Council.

The Board asked if the loss of carbon credits is covered by insurance. Mr O'Neill said only for fire.

Mr Barnett suggested the Board wait to make a decision following a workshop to allow for further discussion, he added the sale of carbon credits is best discussed at a Finance Committee meeting.

The Chair asked for an update regarding the Muricata harvest at Simons Pass.

Mr O'Neill replied the current issue is employing a contractor with the correct equipment to undertake the work. He said a number of contractors cannot be persuaded. He added Forest Management are currently negotiating with other contractors, he noted the volume cannot be received from harvesting these trees to make it viable for contractors while also considering the price had dropped for the Muricata.

The Chair noted that perhaps further down the track this could be visited. Cr Williams noted having to wait until loggers are in the area may be a better option.

The Chair thanked Terry O'Neill and Kevin O'Neill for their contribution. He added he had enjoyed his time as the Forestry Board Chair and thanked the Board for the contribution also.

THE CHAIRMAN DECLARED THE MEETING CLOSED AT 9:42AM

CHAIRMAN: _____

DATE: _____

6.2 FINANCIAL REPORT SEPTEMBER 2016**File Reference:** N/A**Authoriser:** Paul Morris, Chief Financial Officer**Attachments:** 1. Financial Report**PURPOSE OF REPORT**

Attached is the financial report for the Forestry Committee for the period to September 2016, the purpose of which is to update the Committee members on the financial performance of the Forestry Committee as a whole for that period.

STAFF RECOMMENDATIONS

1. That the report be received and the information noted.

BACKGROUND

Commentary will be provided for any significant variances.

WAYNE BARNETT

CHIEF EXECUTIVE OFFICER

Mackenzie District Council Finance Report For The Period Ended September 2016							
LYTD Actual September 2015	FORESTRY	YTD Actual September 2016	YTD Budget September 2016	Variance			Full year Budget 30/06/17
	Income						
3,523	Other Income	(6,096)	(6,696)	600	✓		8,200
-	Other Gains and Losses	-	-	-	✓		500,000
12,061	Internal Interest Income	24,082	8,454	15,628	✓	1	33,827
-	Asset Impairment	-	-	-	✓		74,000
15,585	Total Income	17,986	1,758	16,228			616,027
	Expenses						
-	Consultancy Expenses	6,000	5,124	(876)	✗		20,500
13,648	Administration Expenses	14,579	18,396	3,817	✓		37,600
2,333	Operational and Maintenance	6,436	7,347	911	✓		29,400
15,981	Total Expenses	27,015	30,867	3,852			87,500
(396)	Operating Surplus/(Deficit)	(9,029)	(29,109)	20,080			528,527
Operating and Capital Reserves							
(396)	Operating Surplus/(Deficit)	(9,029)	(29,109)				528,527
(396)	Total Operating Reserves	(9,029)	(29,109)				528,527
	Equity						
1,353,086	Opening Balance	4,789,367	338,136				1,353,086
-	Transfer - from Operating Reserve	-	95,532				382,277
1,353,086	Total Capital Reserves	4,789,367	433,668				1,735,363
Variance Analysis: 1. Internal interest income is significantly higher than forecast, as the Capital Reserve balance is higher due to an increase in the price of carbon credits and the revaluation of the forests in the previous year.							

6.3 FORESTRY MANAGER'S REPORT JUNE, JULY AND AUGUST 2016**File Reference:** N/A**Authoriser:** Wayne Barnett, Chief Executive Officer**Attachments:** Nil**STAFF RECOMMENDATIONS**

1. That the report be received and the information noted.

Kevin O'Neill's Time & Travel Log
June 2016

June 2016	Hrs	Kms	Details
9 th	2	57	Visited Matt Jordan Contractor felling trees opposite our Cave plantation where we have a small block 2or 3 Ha of mature trees. It would make for efficient milling if our block could be milled in conjunction with across the road to save machinery transport costs. Contacted Barry Wells of Blakley Pacific and Terry O'Neill. Also informed Graeme Smith.
16 th	3 ½	75	Took Sam Bell to Fox Peak to inspect grazing, fencing repairs, tree growth and spraying. Sam has done a lot of work on the fences and he has done some spraying. Pasture is under control and the trees are growing very well. Inspected Jackson's plantation which is being sprayed, will ask Ian McDonald to spray a little further back on setbacks next time round.
17 th	1 ½		Spoke with Barry Wells about progress on Cave block harvesting. He is to work with Terry who is contacting Paul Smith about traffic management control and also Downers who have the roading contract in that area. Had a ring from Stephanie Burke from Ecan who has taken over from Andrew Turbell and wants to inspect Fox Peak for gorse and broome. Issued permit to Mark Collier to shoot at Cave plantation. Checked his Firearms Licence.
21 st	3 ½		Did April and May Forestry Reports
28 th	1		Spoke with Graeme Smith about problem of finding contractors to mill at Simons Hill, main concern being log size not big enough. In contact with Blakley Pacific about their contractor harvesting our 2-3 Ha block

			across the road from Cave where they are working at present. Informed Paul as to where we are at.
29 th	½		Oregon Nurseries have a good deal going on Corscians as they are being closed down by their owners. In touch with Terry as if we could mill at Simons Pass, they may hold over trees for us. As we would not be able to source sufficient Tenuates if we were to harvest and plant this year, at Simons Hill.
TOTALS	12	132	

Kevin O'Neill's Time & Travel Log

July 2016

July 2016	Hrs	Km	Details
1 st	1 ½		Priced fencing materials for boundary at Cannington
4 th	½		Checked prices and tree orders at Organ Nurseries
7 th	1		Spoke with Andrew Holmwood who has strainers in but is having trouble to get fence up before planting on a steep back facing, due to frost and thaw. Spoke with Terry. He has Matt Adams logging contractor looking at Simons Hill. He will follow up with Matt Jordan who is logging across the road at Cave to see if he can log our small block of 2 – 3 Ha.
8 th	2 ½	58	Meet Terry and Tony from Paul Smiths at Cave about traffic control for logging close to the road. Looked at spraying 3 year old trees either side of Nelson Road, some broome still alive after first spray, but will wait for spring when residue may kick in again. Looked at small block at Mawaro, needs 2-3 years before thinning.
13 th			Spoke with Paul Gallagher about spraying gorse and broome on the banks of old irrigation supply race through Cabuie.
14 th	1 ½		Wrote June Forestry Report
21 st	3	61	To Cannington to show Brent Kircher the block to plant, checked on survival rates and growth of block planted at Cave also.
22 nd			Cannington: Planted 1.8Ha in Radiata Pine – 2700 trees.
25 th			Terry informed me that Matt Jordan has moved from Cave. Our next option would be to work in with Raymore Downs when they are milling next door. Logs may then be able to be transported out their track and

			not directly on to State Highway 8.
TOTALS	10	119	
<p style="text-align: center;">Kevin O'Neill's Time & Travel Log August 2016</p>			
August 2016	Hrs	Kms	Details
2 nd	1		Spoke with Rob Allan and Don McConchie about rabbit numbers at Tekapo. Rang neighbours to co-ordinate a poisoning programme. Visited Garth Nixon to discuss a cost share as the Transfer Station is also in the area.
22 nd	2		Office Work.
23 rd			Spoke with Terry about agenda for Forestry Board Meeting. Still looking for a contractor to log at Simons Hill. Caron Credits are at \$18.00 at present. Kurt Crisp to thin next block at Cabuie. Simons Hill planted in 1985. Carbon credits are paid out so there will not be an increase of carbon credits because of extra bulk grown by leaving the trees to grow longer.
25 th	4	89	To Tekapo to get an idea of rabbit densities, speak with neighbours and see where signs should go up. Paper advertising starts now. Poison to start 5 th September 2016.
26 th	1 ½		Wrote July Forestry Report.
30 th	1		Attended Forestry Board Meeting. We have 113,825 Carbon Credits @ \$18.00 as at 24 th August 2016. We have 22,000 more due in May 2017.
TOTALS	9 ½	89	

WAYNE BARNETT
CHIEF EXECUTIVE OFFICER

6.4 SALE OF CARBON UNITS**File Reference:** N/A**Authoriser:** Paul Morris, Chief Financial Officer**Attachments:** 1. Report from Council's District Forester**PURPOSE OF REPORT**

For the Forestry Board to recommend to Council to sell some of the carbon units held.

STAFF RECOMMENDATIONS

1. That the report be received.
2. That the Forestry Board recommend to Council to sell one quarter of the carbon units held at a price no less than \$18.00 per unit.
3. That the Forestry Board recommend to Council that it authorise the sale of a further one quarter of the carbon units held during the period up to 31 December 2016 if the price of carbon reaches \$20.00 per unit.
4. If the price in recommendation 3 does not reach \$20.00 in the period specified then the Council authorise staff to sell that quarter at best price over \$18.00 per unit.

BACKGROUND

The attached report provides a background to the Emissions Trading Scheme and Council's involvement.

With the recovery of carbon prices it is appropriate to discuss liquidating some of these units.

POLICY STATUS

Not applicable.

SIGNIFICANCE OF DECISION

The decision is not considered to be significant in terms of Council's Significance and Engagement Policy.

OPTIONS

The Board has two options:

1. To sell some of its carbon units.
2. Not to sell some of its carbon units.

CONSIDERATIONS**Legal**

Not applicable.

Financial

If the Board's recommendation to sell some of its carbon units is accepted then the only additional income that would be produced would be interest that could be earned upon converting the carbon units to cash. Assuming this was done at the end of November for every 100 units sold interest of \$36 pa could be earned.

Therefore if half the carbon units held were sold it would potentially generate \$1,024,000 in cash earning approximately \$12,000 in interest for the 7 months to 30 June 2017.

Market analysts are predicting an increase in price towards Christmas to \$20.00 per unit. It may be prudent to sell carbon units in 2 tranches.

Being a member of the Emissions Trading Scheme means that should Council cease forestry activities then the carbon units allocated to Council would need to be repaid. This is an unlikely scenario while Council still maintains forestry as an investment.

Other

Not applicable.

CONCLUSION

The Council's carbon units produce a paper profit each year additional income can be generated from selling some of the units and the cash generated invested in interest bearing investments.

It is recommended that a portion of the carbon units held are sold and to potentially maximise the benefits to Council, it is recommended that one quarter of the units held are sold immediately at a price above \$18.00 per unit and that a further quarter be sold if the price reaches \$20.00 per unit. If the price has not reached \$20.00 per unit before 31 December 2016 then the quarter be sold at a price above \$18.00 per unit.

WAYNE BARNETT

CHIEF EXECUTIVE OFFICER



MDC Carbon Credits

August 2016

www.ashburtondc.govt.nz



1. Introduction

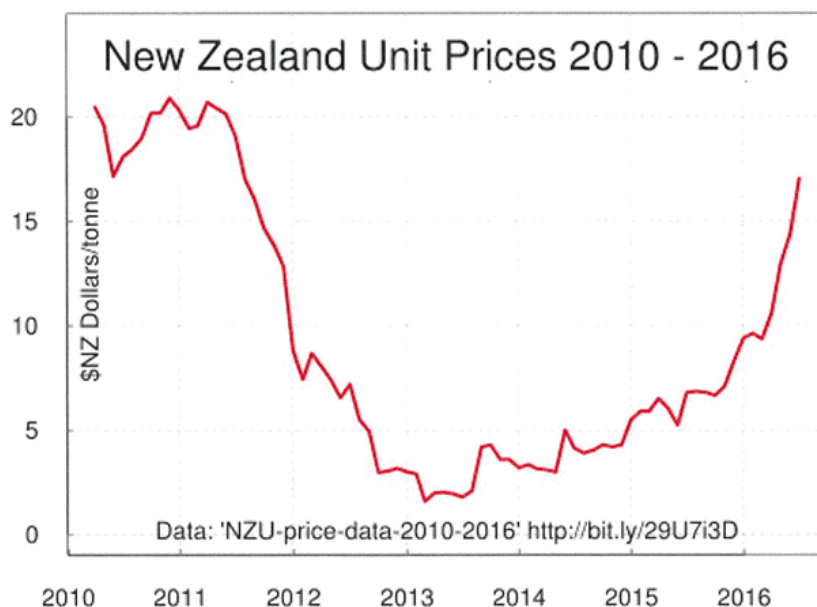
Mackenzie District Council's has just over half of its forest estate (568ha) registered in the Emissions Trading Scheme (ETS). After some initial sales of carbon credits in 2010 and 2011 the carbon markets drop dramatically. Over the last year the carbon price has recovered to point where the sale of carbon credits needs to be considered again.

Recommendation: Council should sell a portion of its carbon credits while credits remain \$18/unit or over.

2. Forestry & Carbon Credits

The New Zealand's Emissions Trading Scheme (ETS) commenced in 2008 with forestry being one of the first participants. Soon after this the Council decided to register its post 1989 forests in the scheme, these forests included Woods on the Clayton Road, Cabuie on Ashwick Flat Rd, Fox Peak at Plantation Rd and a smaller area at Simons Hill in the Mackenzie Basin. Initially carbon prices increased to a level that had the Council selling its first credits for approximately \$18/unit. The following year prices continued to increase and the next lot of credits sold for over \$21/unit and the Council was looking forward to continuing carbon credit sales. The NZ carbon market however would crash with the GFC taking the heat out of European carbon markets and cheap ERU's flooding the New Zealand market.

While the price of NZU's started to drop the Council received more carbon credits for its allocation of units for its pre-1990 forests. The Council has approximately 450 hectares of pre-1990 forest and it received over 29,000 NZU's. By the end of 2013 the Council held 70,000 units but they were only worth \$175,000.



MDC Carbon Credits - August 2016

The New Zealand ETS ended up going from a peak of over \$23/unit to less than a dollar in 2013. The use of cheap European ERU's and a virtual collapse of the NZ carbon market forced the governments hand to make changes and maintain the viability of the NZ ETS. The eventual change saw the end of ERU's being used for meeting carbon liabilities, this lead to a recovery in the price for NZU's which started 12 months ago. Further gains were guaranteed when the government removed the 2 for 1 subsidy for many of the emitters. This has seen the carbon price recover to reach over \$18/unit with the current spot price being \$18.00/NZU. With the purchase of cheap overseas units stopped there does not seem to be any reason for the ETS to fall away again, maybe now the Council can look forward to consistent income from its carbon credits.

Currently Mackenzie District Council has 113825 NZU's which as at 24 August 2016 were worth \$18/NZU. The total net value therefore is **\$2,048,850**. With this recovery in carbon prices it is recommended that the Council should now sell some of these units.

Terry O'Neill

DISTRICT FORESTER

7 ADJOURNMENTS