

# BC Timber Sales

## QUARTERLY PERFORMANCE REPORT

*for the period April 1<sup>st</sup> to September 30th, 2014  
Fiscal 2014/15*

ECONOMIC PROSPERITY - SUSTAINABLE RESOURCES - EXCELLENCE



Ministry of  
Forests, Lands and  
Natural Resource Operations



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# INTRODUCTION

BC Timber Sales (BCTS) presents its second quarter performance report for 2014/15. Quarterly performance reports are a key part of the BC Timber Sales Performance Management and Accountability Framework.

## Business Goal

BC Timber Sales has one goal and three objectives:

**Goal:**

**Provide credible representative price and cost benchmark data for the Market Pricing System through auctions of timber harvested from public land in British Columbia.**

**Objectives:**

1. **Sell the full BC Timber Sales' apportionment over the business cycle, consistent with safe practices & sustainable forest management.**
2. **Generate direct net revenue and indirect revenue for the Province over the business cycle.**
3. **Continuous Business Improvement**

**Principle 1 - Sustainable Forest Management**

**Principle 2 - Forest Sector Safety**

## Business Outcomes

BC Timber Sales' goal, objectives and principles support the outcomes of **Economic Prosperity**, **Sustainable Forest Management** and **Forest Sector Safety**.

- **Market priced timber**
1. Rural economies, jobs and families
  2. Maximum value for asset and net revenue to support government priorities.
  3. Continuous improvement and long term success of BCTS.
- BCTS is recognized as demonstrating sound forest management.
  - Increased safety awareness and a culture of safety in all its practices and operations.

## Key Indicators

The success of BCTS in achieving its business goal is measured through three key indicators.

- BC Timber Sales' timber volume advertised as a percent of projected provincial harvest volume
- Volume of timber sold
- Net revenue earned

# QUARTERLY PERFORMANCE HIGHLIGHTS



## Overall Performance: Summary of Highlights

- Higher than expected prices have been received for timber harvested which has resulted in an increase in Net Revenue for the Province.
- The Tsilhqot'in Nation Supreme Court decision and severe fire season are adversely impacting second quarter performance.
- Despite the delays BCTS is expected to substantially achieve most year-end targets and business plan objectives.



## Principle 1: Forest Management

BCTS is maintaining 100% of its apportioned timber volume certified to one of the three major forest certification standards. BCTS % certification by standard is currently 80% SFI, 19% CSA, and 1% FSC.

For Q2 of Fiscal Year 2014-2015:

- There is currently no change in Forest Management from Quarter 1.



## Principle 2: Safety:

BCTS continues to collaborate with industry through the BC Forest Safety Council to promote the achievement of safe and healthy workplaces within the forest sector. BCTS is represented on several industry led working groups of the BC Forest Safety Council such as the Coast Harvest Advisory Group (CHAG).

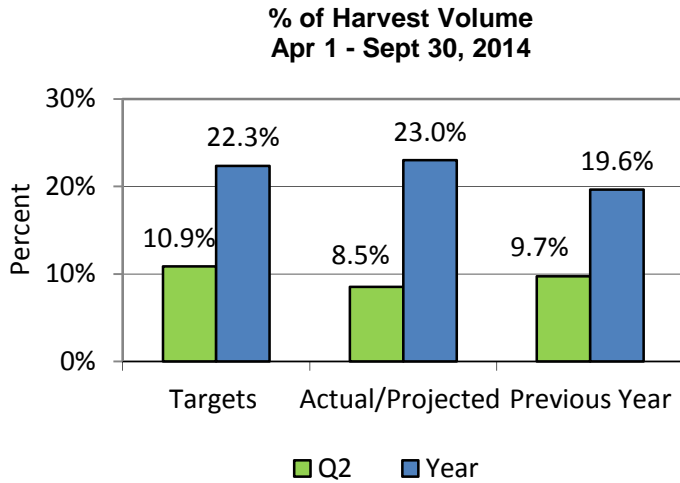
CHAG is working to address safety issues such as phase congestion. Phase congestion occurs when several phases of logging, such as harvest, road construction, and layout, occur within close proximity.

BCTS will be working with CHAG to increase the awareness of BCTS staff, licensees and contractors about phase congestion and to reduce the likelihood of phase congestion through improved planning.



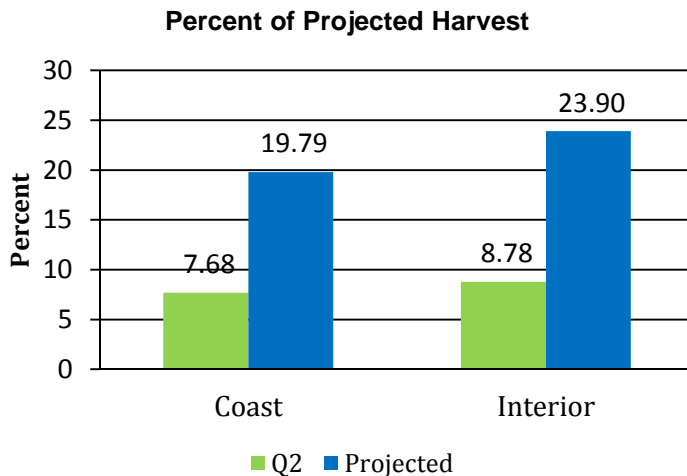
# GOAL: PROVIDING CREDIBLE DATA FOR MPS

## BCTS auction volume as a percent of projected provincial harvest



The volume of timber auctioned by BCTS must be at a level sufficient to support the Market-based Pricing System. In the first six months BCTS advertised 8.5% of the projected annual provincial harvest volume. This is 22% less than target and 14% less than last year. The Tsilhqot'in Nation Supreme Court decision and the severe fire season adversely impacted performance. BCTS is projecting to auction 23% of the projected provincial harvest volume by year end.

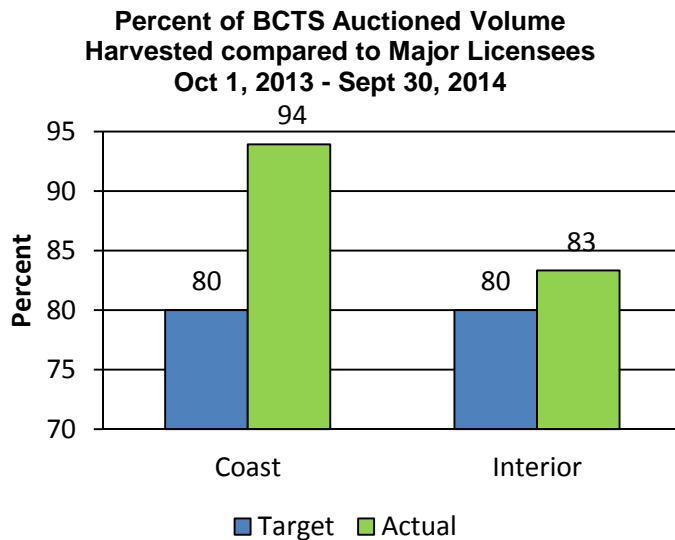
## BCTS Auction Volume as a % of Projected Provincial Harvest Volume – Coast and Interior



To date BCTS has advertised 7.7% of the projected harvest on the Coast and 8.8% in the Interior. BCTS is still expecting to overcome early delays and is projecting to auction 19.8% of the projected harvest on the Coast and 23.9% in the Interior by year end.

# GOAL: PROVIDING CREDIBLE DATA FOR MPS

The percent of BCTS volume sold is within 5 percentage points of the percent of harvest volume by major licensees for each major species and grade MPS attribute 80% of the time



For BCTS to ensure it provides credible data to establish market-based stumpage rates it has to develop and auction a representative volume of timber to provide statistically credible data to the Market Pricing System. For the year ending Sept 30<sup>th</sup>, 2014 BCTS achieved its target for both the interior and the coast regions. BCTS auction volume harvested was within 5 percentage points of the Major Licensee harvest volume by species and grade more than 80% of the time.

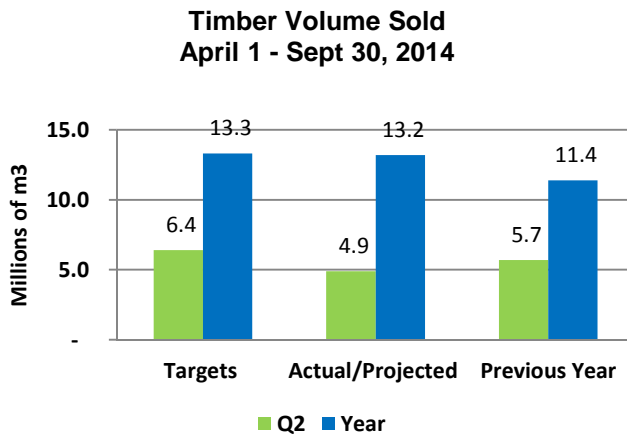
**For BCTS to ensure it provides credible data to establish market-based stumpage rate it also has to ensure its data is complete, accurate, reliable and verifiable.**

- BCTS is implementing a Data Quality Management System which will be applied to all Performance Metric data with Action Plan developed for identified weaknesses.



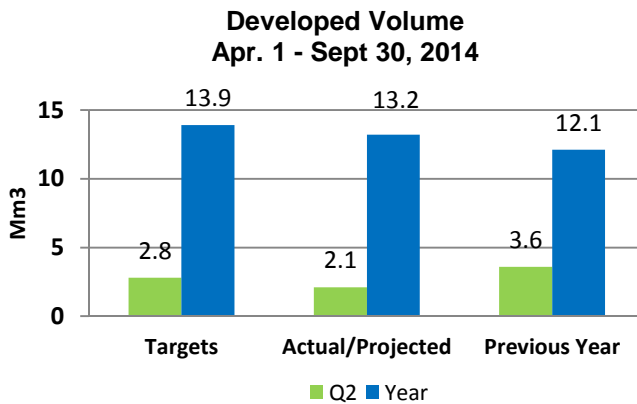
# OBJECTIVE 1: SELLING THE APPORTIONMENT

## Timber Volume Sold



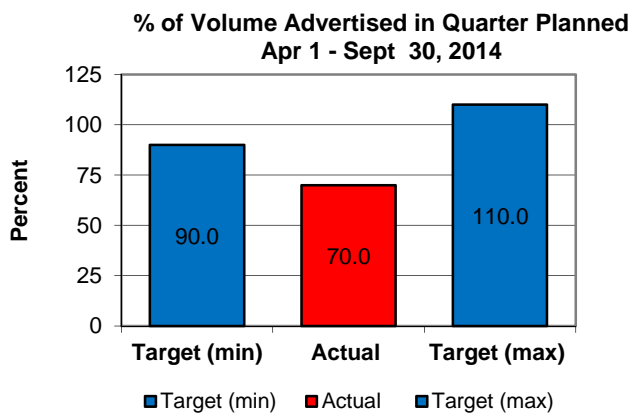
A key measure that BCTS is selling its apportionment over the business cycle is the total timber volume it sells. BCTS sold 23% less timber than target and 14% less than the prior year's second quarter performance. The Tsilhqot'in Nation Supreme Court decision and the severe fire season adversely impacted performance. BCTS is projecting to substantially achieve its target by year end. BCTS is planning to sell 93% of its rationalized apportionment of 14.2Mm3.

## Develop sufficient timber to maximise timber volume offered and sold



In order to have sufficient inventory to achieve its volume sold target BCTS needs to develop timber for auction. During the first half year BCTS developed 2.1 Mm3. This was 25% less than target and 42% less than last year. The Tsilhqot'in Nation Supreme Court decision and the severe fire season adversely impacted performance. Despite the delays, BCTS is projecting to substantially achieve target by year end.

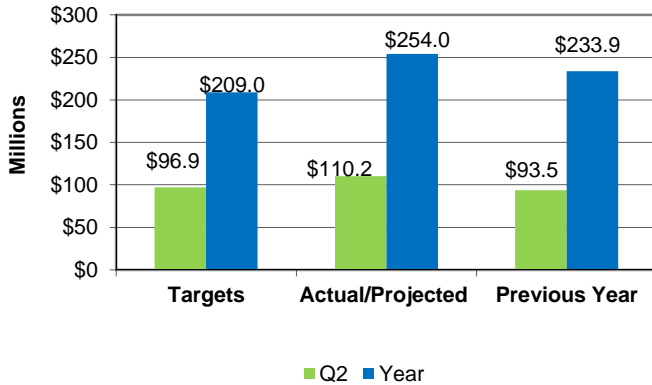
## The volume of timber supplied to the market is reliable



The percent of timber volume advertised in the quarter planned is an indicator of reliability of supply. This measure is also an indicator of the reliability of BCTS' Sales Schedules. In the second quarter BCTS advertised 70% of its planned sales with 3 of 12 business areas achieving their planned volumes. The Tsilhqot'in Nation Supreme Court decision & the severe fire season adversely impacted performance.

# OBJECTIVE 2: REVENUE

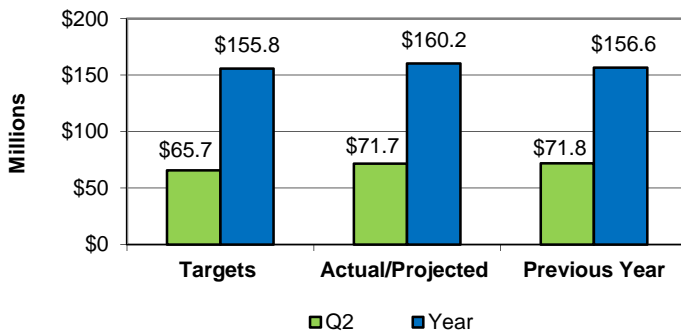
**Gross Revenue**  
Apr 1 - Sept 30, 2014



## Gross Revenue

BCTS gross revenue for the first six months was \$110.2 million – over achieving target by \$13.3 million. Compared to the previous year, gross revenue earned increased \$16.7 million or 18%. The increase in gross revenue is due to higher prices being paid by licensees than expected. BCTS is projecting to exceed its target gross revenue for the year by \$45 million.

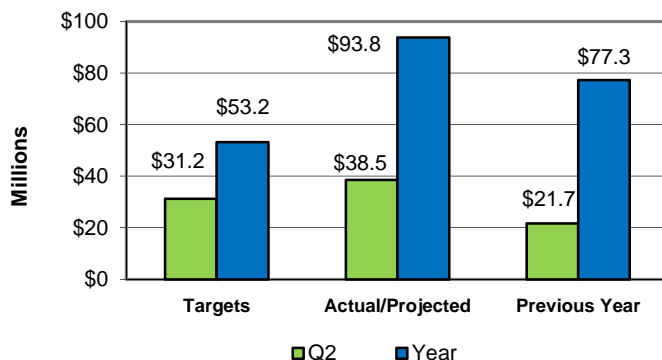
**Capitalized Expenditures**  
Apr 1 - Sept 30, 2014



## Less: Capitalized Expenditures

Capitalized expenditures for the first six months were \$0.1 million less than the previous year and \$6.0 million more than target. The increase in expenditures is due to a higher than projected silviculture liability expense. BCTS is projecting year end expenditures of 3% higher than target.

**Net Revenue**  
April 1 - Sept 30, 2014



## Equals: Net Revenue

Net revenue for the first six months was \$7.3 M more than target and \$16.8 M more than last year. Based on continued strength in the prices BCTS is projecting to over achieve its net revenue target by \$40.6 million or 76% by year end.

# OBJECTIVE 3: CONTINUOUS IMPROVEMENT

To effectively realize its vision, achieve its mission and goal, deliver superior performance, and make a distinct and lasting impact, BC Timber Sales needs to be continuously improving. BC Timber Sales believes that **“Only those with Excellent Processes and Excellent People will truly excel”**. To achieve this BC Timber Sales and its people are committed to continuously learn, innovate and lead themselves through change in the pursuit of excellence and has embraced **Lean** as the next step in our continuous improvement.

## **Increase efforts to achieve business to business partnerships and agreements with customers and/or third parties such as First Nations and communities**

- BCTS continued to pursue a range of business agreements across the province to strengthen relationships with First Nations and rural communities. Discussions were held with stakeholder associations and continue with individual First Nation and other community tenure holders to outline the opportunities provided through BCTS’ revised role. In particular, discussions on timber disposition agreements for additional volume to be sold as timber sale licences are ongoing.
- Considerable work was undertaken on a legislation package proposed for the spring of 2015, which will streamline existing legislative tools, including those provided through the BCTS Account Regulation which was brought into force in fiscal 2013/14. New tools relating to timber rights disposition agreements and business service agreements are also included in the package.
- BCTS also continued to collaborate with the Ministry’s First Nations Relations Branch and other government agencies to support the BC First Nations Forestry Council “First Nations Forestry Training Program”. This program assists First Nations students develop their skills and knowledge of the forest industry with the goal of building capacity for First Nations to be full partners in the sector, while fulfilling the need for qualified people within the forestry sector. The students are being mentored by staff from local BCTS offices across the province. To date, there are plans to mentor and hire six students in the summer of 2015 to gain valuable summer work experience in their chosen field.

## **Pursue excellence in people**

- Building on the work started in the first quarter, the People Practices Working Group has focused on developing and delivering actions to improve employee engagement. The group has initiated strategies to support supervisory-level leadership; best staffing practices throughout the organization; and building awareness of the importance of the culture of recognition and the links to engagement.
- Throughout BCTS we are engaging in conversations at leadership and staff team meetings to promote the Ministry’s People Development Framework, developed to ensure all employees have a learning conversation with their supervisors, and have a learning goal identified and recorded.

## OBJECTIVE 3: CONTINUOUS IMPROVEMENT (continued)

### Pursue excellence in operations, practices and processes

- The Role and Effectiveness Review has redefined the role of BCTS. The need to develop and sell more volume combined with recruitment and retention challenges, changes to timber supply, and the lack of available resources has created urgency to improve our operations. The purpose of the Northern Lean Project is to develop and implement strategies to ensure the long term financial and operational success of BCTS in the North by applying a systems approach and Lean methodologies. Eight business lines have been identified: GIS, Development Planning, Administration, Silviculture, Access, Sales Development, Certification and Management. Each business line will undertake Lean activities to eliminate waste and improve efficiency. Three business lines, GIS, Administration, and Development Planning have held their initial improvement workshops and identified improvements. The teams are currently working to implement those improvements.
- To date the BCTS has undertaken 16 Lean projects, and eliminated 129 “waste tasks”.

# APPENDIX 1 - OUTPUTS

## Key Year to Date Results by Coast and Interior Areas April 1<sup>st</sup> to Sept 30<sup>th</sup>, 2014

Note 1: The timing variance is the volume of timber advertised but not yet sold at cut off.

|   | Target | Total | Coast | Northern Interior | Southern Interior |
|---|--------|-------|-------|-------------------|-------------------|
| <b>Volume Offered (Mm3)</b>                     | 6.9    | 5.5   | 1.1   | 2.2               | 2.2               |
| Less: No Bid Sales/No Sale                      | (0.5)  | (0.7) | (0.2) | (0.3)             | (0.2)             |
| Less: Timing Variance (note 1)                  |        | (0.3) | (0.1) | (0.1)             | (0.1)             |
| Plus: YE Timing Variance                        |        | 0.4   | 0.0   | 0.3               | 0.1               |
|   |        |       |       |                   |                   |
| <b>Volume Sold (Mm3)</b>                        | 6.4    | 4.9   | 0.8   | 2.1               | 2.0               |
|   |        |       |       |                   |                   |
| <b>Volume Harvested (Mm3)</b>                   | 4.6    | 4.4   | 1.6   | 1.3               | 1.5               |
| <b>DELIVERABLES</b>                             |        |       |       |                   |                   |
| <b>Roads</b> (km constructed)                   | 76     | 21    | 6     | 2                 | 13                |
| <b>Bridges</b> (number installed)               | 34     | 19    | 7     | 4                 | 8                 |
| <b>Deactivation</b> (km deactivated)            | 100    | 80    | 8     | 43                | 29                |
| <b>Site Prep</b> (Ha)                           | 2190   | 1687  | 0     | 31                | 1656              |
| <b>Planting</b> (Millions of seedlings planted) | 30.9   | 27.8  | 1.2   | 12.4              | 14.2              |

| Lump Sum Timber Sale Licences | Number (TSL) | Volume (Mm3) |
|-------------------------------|--------------|--------------|
| • Advertised                  | 89           | 2.41         |
| • Less: No Bid/No Sale        | (13)         | (0.29)       |
| • Total Sold                  | 75           | 2.12         |

# APPENDIX 2 - REPORT ON FINANCIAL PERFORMANCE

**April 1, 2014 – Sept 30, 2014**

|                               | 2014/15<br>First quarter<br>(Millions) | 2014/15<br>Second<br>quarter<br>(Millions) |
|-------------------------------|--|--|
| Revenue from External Sources | \$40.0                                 | \$70.2                                     |
| <b>GROSS REVENUE</b>          | <b>\$40.0</b>                          | <b>\$70.2</b>                              |

## Capitalized Expenses:

### Cost of Timber Inventory Harvested

|   |                 |                 |
|---|-----------------|-----------------|
| Administration / Salaries                           | \$4.2           | \$7.7           |
| Planning & Sales                                    | \$3.4           | \$7.5           |
| Access - Amortization                               | <u>\$6.9</u>    | <u>\$7.0</u>    |
| <b>Sub-Total Cost of Timber Inventory Harvested</b> | <b>(\$14.5)</b> | <b>(\$22.2)</b> |

### Other Costs

|   |                        |                        |
|---|------------------------|------------------------|
| Silviculture Liability Expense                  | \$10.4                 | \$8.8                  |
| Road & Bridge Maintenance                       | \$1.8                  | \$2.7                  |
| Road Deactivation                               | \$0.0                  | \$0.0                  |
| Harvest Conformance                             | \$0.0                  | \$0.2                  |
| Operational & Administrative Overhead           | \$6.7                  | \$4.9                  |
| Land Base Investment/ Forest For Tomorrow (FFT) | \$0.8                  | \$4.1                  |
| Land Base Investment/ FFT Recoveries            | <u>(\$0.9)</u>         | <u>(\$4.5)</u>         |
| <b>Sub-Total Other Costs</b>                    | <b><u>(\$18.8)</u></b> | <b><u>(\$16.2)</u></b> |

|                           |                      |                       |
|---------------------------|----------------------|-----------------------|
| <b>NET REVENUE/(LOSS)</b> | <b><u>\$ 6.7</u></b> | <b><u>\$ 31.8</u></b> |
|---------------------------|----------------------|-----------------------|

## Selected Balance Sheet Items

|  | 2014/15<br>First Quarter<br>(Millions) | 2014/15<br>Second<br>Quarter<br>(Millions) |
|--|--|--|
| <b>Silviculture Liability</b>              | <b>\$ 104.5</b>                        | <b>\$ 98.1</b>                             |
| <b>Inventory Value of Developed Timber</b> |  |  |
| Timber Inventory – Opening Balance         | \$124.9                                | \$124.7                                    |
| Timber Developed                           | <u>\$ 7.4</u>                          | <u>\$ 16.9</u>                             |
| Timber Available for Sale                  | \$132.3                                | \$141.6                                    |
| Cost of Timber Inventory Harvested         | <u>(\$ 7.6)</u>                        | <u>(\$ 15.2)</u>                           |
| <b>Timber Inventory – Closing Balance</b>  | <b>\$125.7</b>                         | <b>\$126.4</b>                             |
| <b>Roads</b>                               |  |  |
| Book Value                                 | \$722.3                                | \$730.8                                    |
| Accumulated Amortization                   | <u>(\$473.3)</u>                       | <u>(\$480.3)</u>                           |
| <b>Net Book Value</b>                      | <b>\$249.0</b>                         | <b>\$250.5</b>                             |
| <b>Deactivation Liability</b>              | <b>\$ 7.9</b>                          | <b>\$ 8.0</b>                              |
| <b>Seed Inventory</b>                      | <b>\$ 22.0</b>                         | <b>\$ 22.1</b>                             |

(Unaudited)

**For more information on BC Timber Sales**

**visit our Web site at**

**[www.for.gov.bc.ca/bcts](http://www.for.gov.bc.ca/bcts)**

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