

Duthie Joint Venture McKay Joint Venture

DRAFT STATEMENT OF INTENT FOR THE TWO FORESTRY JOINT VENTURES DUTHIE AND MCKAY FOR THE YEAR ENDED 30 JUNE 2027

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 landowner 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" Statement of Intent is considered appropriate as the variations are minor.

The Duthie Joint Venture is currently in the growth phase of the lifecycle. Activity in this joint venture includes the ongoing management of trees in accordance with accepted silvicultural practice.

The McKay Joint Venture is now expected to begin harvesting in October 2026. This is later than forecast in previous Statements of Intent, which expected harvesting to begin in January 2023, and then subsequently in October 2023. Harvesting has been deferred due to a decline in log prices during 2021/22, which are now increasing again. It is considered prudent to defer harvesting of the forest to maximise proceeds from the sale of harvested logs.

The Statement of Intent for 2026/27 has been prepared under the assumption that harvesting for the McKay Joint Venture will be completed by 30 June 2027. The McKay Joint Venture will be wound up at the completion of harvesting.

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 CCOs 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

RATIO OF CAPITAL TO TOTAL ASSETS

The ratio of joint ventures funds (capital) to total assets is expected to be approximately 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****i) Statement of Comprehensive Revenue and Expense**

	FY2027F	FY2028F
	\$000's	\$000's
<i>Revenue</i>		
Harvesting sales	-	2,710
Total revenue	-	2,710
<i>Expenditure</i>		
<i>Operational expenditure</i>		
Maintenance, horticulture	3	2
NPDC services	1	2
Other services	1	1
Audit fees	6	6
<i>Harvesting expenditure</i>		
Cost of timber sold	-	382
Management fees	-	47
Freight and cartage	-	394
Contractor payments	-	1,220
Other services	-	94
Total expenditure	11	2,148
(Deficit)/ Surplus	(11)	562
<i>Attributable to:</i>		
NPDC	(11)	(11)
Joint Venture partner	-	-

ii) Statement of Financial Position

	FY2027F \$000's	FY2028F \$000's
<i>Non-current assets</i>		
Forestry	382	-
Total non-current assets/ total assets	382	-
<i>Current liabilities</i>		
Trade creditors and other payables	6	-
Total current liabilities/ total liabilities	6	-
<i>Equity</i>		
<i>Accumulated funds</i>		
Attributable to NPDC	205	-
Attributable to Joint Venture partner	171	-
Total equity	376	-

iii) Statement of Changes in Equity

	FY2027F \$000's	FY2028F \$000's
Opening balance	376	376
Total comprehensive revenue and expense	(11)	562
Contribution from NPDC	11	17
Distribution to joint venture partners	-	(955)
Closing balance	376	-

iv) Statement of Cash Flows

	FY2027F \$000's	FY2028F \$000's
<i>Cash flows from operating activities</i>		
Receipts from harvesting	-	2,710
Payments to suppliers and directors	(11)	(1,772)
Net cash from operating activities	(11)	(937)
<i>Cash flows from financing activities</i>		
Contributions from NPDC	11	17
Distributions to joint venture partners	-	(955)
Net cash from financing activities	11	(937)
Net cash from investing activities	-	-
Net increase/(decrease) in cash and cash equivalents	-	-
Cash and cash equivalents at 1 July	-	-
Cash and cash equivalents at 30 June	-	-

Depending on harvesting being completed by 30 June 2028, net proceeds are anticipated to be paid to the joint venture partners at the conclusion of the 2027/28 financial year, when the final accounts are audited.

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.

Harvesting is anticipated during the 2027/28 financial year and is dependent on tree growth and log prices which may either bring forward or delay the harvesting process. No silvicultural activities other than inspection and maintenance are required during 2026/27 or 2027/28.

McKay joint venture

1. Financial performance

i) Statement of Comprehensive Revenue and Expense

	FY2027F \$000's
Revenue	
Harvesting sales	7,575
Total revenue	7,575
Expenditure	
<i>Operational expenditure</i>	
Maintenance, horticulture	2
NPDC services	1
Other services	3
Audit fees	6
<i>Harvesting expenditure</i>	
Cost of timber sold	1,325
Management fees	137
Freight and cartage	1,369
Contractor payments	2,738
Other services	876
Total expenditure	6,457
Surplus	1,118
<i>Attributable to:</i>	
NPDC	627
Joint Venture partner	491

ii) Statement of Financial Position

	FY2027F \$000's
<i>Non-current assets</i>	
Forestry	-
Total non-current assets/ total assets	-
<i>Current liabilities</i>	
Trade creditors and other payables	-
Total current liabilities/ total liabilities	-
<i>Equity</i>	
<i>Accumulated funds</i>	
Attributable to NPDC	-
Attributable to Joint Venture partner	-
Total equity	-

iii) Statement of Changes in Equity

	FY2027F \$000's
Opening balance	1,320
Total comprehensive revenue and expense	1,118
Contribution from NPDC	17
Distribution to joint venture partners	(2,455)
Closing balance	-

iv) Statement of Cash Flows

	FY2027F \$000's
<i>Cash flows from operating activities</i>	
Receipts from harvesting	7,575
Payments to suppliers and directors	(5,137)
Net cash from operating activities	2,438
<i>Cash flows from financing activities</i>	
Contributions from NPDC	17
Distributions to joint venture partners	(2,455)
Net cash from financing activities	(2,438)
Net cash from investing activities	-
Net increase/(decrease) in cash and cash equivalents	-
Cash and cash equivalents at 1 July	-
Cash and cash equivalents at 30 June	-

Depending on harvesting being completed by 30 June 2027, net proceeds are anticipated to be paid to the joint venture partners at the conclusion of the 2026/27 financial year, when the final accounts are audited.

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.

Harvesting is due to begin during October 2026 and be completed by 30 June 2027. The joint venture will discontinue at the completion of harvesting.

DIVIDEND POLICY

Until the joint ventures reach a stage where timber can 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.

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.
- (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):

	2025	2024
McKay and Others joint venture	\$1,320,000	\$1,743,896
Duthie joint venture	\$377,264	\$627,963

CAPITAL EXPENDITURE FORECASTS

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

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