

Forest Investment Council Recommendations

June 9, 2004

Land Base Investment Program (LBIP)

The LBIP annual report for 2003-04 had been circulated before the meeting. Kevin Bromley explained that 1249 projects had been completed at a cost of \$55.5 million. The year ended with a surplus of \$828 thousand not spent (compared to a surplus of about \$4.6 million in the first year of the program). This caused the Council members to ask if there is a systemic problem that will continue to cause a surplus to accrue at each year-end. Mr. Bromley explained that, because funding recipients cannot overspend in a given year, one should expect them to be conservative in their budgeting. In addition, recipients are not required to submit their final cost claims until late April each year, after the Ministry has closed its books for the previous fiscal year.

Mr. Bromley noted that some 75 percent of the total expenditures related to information gathering and management, and stand establishment and treatment. The distribution across activity areas was virtually identical in the Northern and Southern Interior Forest Regions. In the Coast Forest Region, a much greater percentage was spent on restoration and rehabilitation. Wildlife habitat mapping increased substantially compared to the previous year, largely through partnerships between licensees and the Ministry of Water, Land and Air Protection.

In 2003-04 the Ministry of Forests had imposed a notional cap such that no more than 15 percent of the total LBIP allocations could be spent on "innovative projects" prior to a Ministry review of the efficacy of those projects. In fact, licensees spent about 11 percent of their allocations in this activity area. The Ministry did conduct an independent review, which concluded that the funds were generally being well spent. On the strength of that review, no cap has been imposed this year.

As in the previous year, the Ministry and PricewaterhouseCoopers (PwC) hosted three regional workshops in late 2003-04 at which licensees were invited to suggest policy or procedural changes. Based in part on those discussions, PwC can now advance 100 percent of anticipated project costs through the first three-quarters of the year, and hold back an aggregate 20 percent only in the last quarter. Licensees can now pre-purchase capital assets at year-end for work to be done in the following year, provided that certain conditions have been met. Vehicle mileage rates have been revised, and the Ministry has invoked a certain remedy if a licensee fails to tender at least 50 percent of its work.

Ian Brown noted that almost all audits of last year's projects have been completed, and the remainder will be finished by June 30th. No significant issues arose during the audits, many of which were observed by Ministry staff.

Mr. Bromley advised that about one-third of this year's LBIP funding has now been committed to approved projects.

Jon O'Riordan told the members that MSRM is not staffed to the level where its employees can ensure that every project adheres to government data standards. Instead, MSRM staff feel that individual professionals have a "first-line responsibility" to ensure that those standards are met. Government is relying heavily on PwC to exert that quality control, and Mr. Brown replied that PwC actively engages independent experts to critique proposed projects if the PwC staff are uncertain about adherence to government's data standards. Mr. Bromley observed that audits have not indicated any problems in this regard.

Gord Macatee said that MWLAP staff has enjoyed a good working relationship with PwC staff, and Ric Slaco commended PwC for the quality of its annual report. Mr. O'Riordan suggested that PwC is doing a good job of documenting activity outputs, but what is needed are performance measures related to outcomes. Mr. Bromley replied that such measures would have to be developed by Ministry staff. With respect to the audit plan for the current year, it was noted that the plan is essentially the same as for the prior year, with audits being actively distributed across

major, medium-sized, and smaller licensees, and with at least 25 percent of the audits being outsourced by PwC.

At this point the members discussed the desirability of promoting the visibility and benefits of FIA programs generally, and the LBIP specifically. They suggested that it would be good to hold the next meeting in the form of a field trip to examine some of the work done with FIA funding. The PwC staff agreed to arrange such a trip in September.

Forestry Innovation Investment (FII) Programs

Christine Kennedy joined the meeting at this point to speak to the Forestry Innovation Investment Ltd.'s (FII) draft annual report for 2003-04, which had been distributed in advance. She explained that the report is structured according to the format required by the Crown Agencies Secretariat, and is therefore very detailed.

Ms. Kennedy briefly outlined FII's array of international marketing strategies. In particular, she advised that every other significant woods product jurisdiction is actively promoting itself in China, and that, in concept, she would like to duplicate the Dream Home China project in several other cities. Having said that, she also confirmed the need to stay focused on Japan and other existing markets. Mr. Slaco explained that competition is strong in Japan, especially by European suppliers. Although BC lumber products exhibit superior strength and other physical attributes, it is critical that BC remain cost competitive.

Ms. Kennedy noted that certain other jurisdictions seem to be much more amenable to overseas timber processing than is BC, and suggested that one of BC's strong points is its environmental management regime. She advised that FII intends to establish an advisory committee within the coming month or so. It would be actively involved in crafting FII's strategies.

Members discussed the difficulty of trying to manage an organization such as FII on year-to-year Voted appropriations, and the implications this has for multi-year contracts. It was agreed that someone should posit ideas for a more secure model. Members agreed that it would be a good idea if FII could identify strategic options for a potentially expanded program based on increased funding.

Ms. Kennedy advised that FII is working informally with many forest-sector bodies to promote BC wood products during the 2010 Winter Olympics. She said they were encouraging architects to incorporate wood in their designs, and especially to address any issues related to the LEED Green Building Rating System, or other such third-party validation.

Small Tenures Program, Crown Land Use Planning Enhancement Program, and Ministry Funding

Ken Baker invited members to pose any questions they might have about the annual reports from the Federation of BC Woodlot Associations and the three Ministries. He was asked to have the Federation's expenditures sorted by activity area, and Mr. Slaco suggested that the Ministry of Forests' service plan annual report should identify the accomplishments of all three Ministries that receive FIA funding.

Forest Science Program

Mr. Baker gave a short verbal explanation of recent developments in the Forest Science Program. He explained that the new Forest Science Board has met several times since January, and is on track to produce a strategic plan by mid-summer. That plan will guide PwC's next call for proposals in September. The Board has agreed that the program should be structured according to three strategic theme areas, namely *improving timber growth and value, sustainability, and extension*. The Board will work closely with FORREX to see that extension activities increasingly meet the needs of forestry practitioners. The Board has recently established two program advisory committees to provide expertise in the other theme areas. Those committees are

expected to meet for the first time in June or July, and have been invited to contribute to the first Board strategy if they wish to do so in the short time available.

Program Allocations for 2004-05

Mr. Baker had previously distributed spreadsheets showing the allocations to each FIA program this year, and the earmarking that is occurring within the LBIP. This information essentially confirmed the situation that was anticipated when the Board last met in late February, except that the \$2 million of LBIP funds originally slated for fire hazard abatement activities is instead being used to fund new fire suppression unit crews.

Program Structure and Allocations for 2005-06

Although the agenda had anticipated a preliminary discussion about program structure and allocations for 2005-06, the three members agreed that it would not be productive to hold such a discussion without the other members present. Hence it was deferred.

Next Meeting

The next meeting will be held in mid- to late September, depending on members' availability. The Secretary and PwC staff will try to organize a one-day field trip, probably on southern Vancouver Island, to examine work done with FIA funding. Ministers may be invited to participate.