

VICTORIA

Auditor General

Victoria

Measuring the success of the Our Forests, Our Future policy

*Ordered to be printed by Authority.
Government Printer for the State of Victoria*

ISSN 1443 4911
ISBN 0 9752308 6 7



AUDITOR GENERAL
VICTORIA

The Hon. Monica Gould MP
President
Legislative Council
Parliament House
MELBOURNE

The Hon. Judy Maddigan MP
Speaker
Legislative Assembly
Parliament House
MELBOURNE

Under the provisions of section 16AB of the *Audit Act 1994*, I transmit my performance audit report on *Measuring the success of the Our Forests, Our Future policy*.

Yours faithfully

JW CAMERON
Auditor-General

7 October 2004

Foreword

This report is my Office's third in a series on sustainability.

In October 2003, in *Managing logging in State forests*, I reported on the results of a performance audit of the early implementation of the government's *Our Forests, Our Future - Balancing Communities, Jobs and the Environment* policy.

During the course of that audit, my Office researched the broader topic of measuring sustainable development. This led to a recognition that sustainability has a wider application than the environmental arena. In June 2004, I released an occasional paper on the broader topic of sustainability, *Beyond the triple-bottom line: Measuring and reporting on sustainability*.

This report sets out a framework of performance indicators and measures that may be used to assess whether the implementation of the *Our Forests, Our Future* policy is successful. *Our Forest, Our Future* is an important sustainable forest management policy in Victoria. It seeks to protect the forests' environmental values while supporting the timber industry and assisting rural communities. A number of initiatives in the policy will not take effect until 2005 or 2007 and, in some instances, it will be difficult to assess the outcomes of the policy until 2010.

The report recommends a way forward by making available the audit criteria that may be applied in future audits of the implementation of *Our Forests, Our Future* policy. I urge the Department of Sustainability and Environment to develop a comprehensive performance measurement framework for the public reporting on the implementation of *Our Forests, Our Future*. The material in this report provides a starting point for this work.



JW CAMERON
Auditor-General

7 October 2004

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Glossary

DSE

Department of Sustainability and Environment.

DTF

Department of Treasury and Finance.

DVC

Department for Victorian Communities.

EIAP

Expert Independent Advisory Panel: established in response to a key recommendation of the Expert Data Reference Group (the Vanclay Report) to provide, for the Minister, expert independent review of the Department's monitoring of annual harvesting performance and its implications for forest resource estimates.

EDRG

Expert Data Reference Group: conducted and reported on the evaluation of data and methods for estimating the sustainable yield of sawlogs in Victoria in 2001.

EIS

Employer Incentive Scheme.

EPA

Environment Protection Authority.

FAFPESC

Forest and Forest Products Employment Skills Company: contracted to manage parts of the worker and contractor assistance programs in Our Forests, Our Future.

FMA

Forest Management Area: a defined area for forest management purposes. There are 13 FMAs in Victoria.

SFRI

Statewide Forest Resource Inventory: A map-based inventory including assessments of classes, quantity and quality of forest resources.



1. Introduction



1.1 Purpose

In 2003, we planned an audit to examine the efficiency, effectiveness and economy of the *Our Forests, Our Future - Balancing Communities, Jobs and the Environment* policy. At that time, we broke the audit into 2 phases. The first phase concentrated on the buy-back of sawlog licences (and the associated worker and contractor assistance programs) required to meet the reduced timber harvesting volumes that was a key objective of the policy. The results of that audit were contained in our October 2003 report titled *Managing logging in State forests*.

The second phase of the audit concentrates on assessing the effectiveness of the implementation and impact of the *Our Forests, Our Future* policy.

We initially examined what measures existed to report publicly on the progress of the policy. Though there are several different measuring and reporting frameworks in place for the broader topic of sustainable forest management, the Department of Sustainability and Environment, the lead agency across government for the implementation of this policy, has not yet established a specific reporting framework for the *Our Forests, Our Future* policy.

Consequently, in this second phase of the audit, we have developed performance indicators, measures and standards that may form the basis of future performance audits of the implementation of *Our Forests, Our Future*. We have done this in consultation with the Department of Sustainability and Environment and other agencies.

We are providing these assessment tools in advance to assist Parliament, the Department of Sustainability and Environment and other stakeholders in gauging whether the agencies involved in *Our Forests, Our Future* are implementing the policy as planned and whether the intended policy outcomes are being achieved.

Recommendations

1. **That the Department of Sustainability and Environment develops a clear, coherent and comprehensive set of performance measures to report to the community on the progress of the implementation of *Our Forests, Our Future*.**

The material in this report could provide a starting point for this reporting framework.

2. **That the Department of Sustainability and Environment involve all other agencies that have a part in the implementation of *Our Forests, Our Future* in the development of these measures.**

1.2 Policy environment

1.2.1 Sustainable forest management policy

At its most basic, “sustainability” is about maintaining any activity over a long time. As a policy commitment, it has a global origin through numerous international conferences and commitments on sustainable development.

Australia and Victoria have been formally committed to sustainability since 1992, when the Commonwealth launched the *National Strategy for Ecologically Sustainable Development*. The strategy included specific challenges for the key resource sectors – agriculture, fisheries, manufacturing, mining, urban and transport planning, energy, tourism and forests.

The *National Forest Policy Statement* (to which Victoria is a signatory) emerged in 1992 as a component of the national strategy. It adopted the following definition of sustainable forest management:

“The integration of commercial and non-commercial values of forests so that both the material and non-material welfare of society is improved, whilst ensuring that the values of forests, both as a resource for commercial use and for conservation, are not lost or degraded for current and future generations”¹.

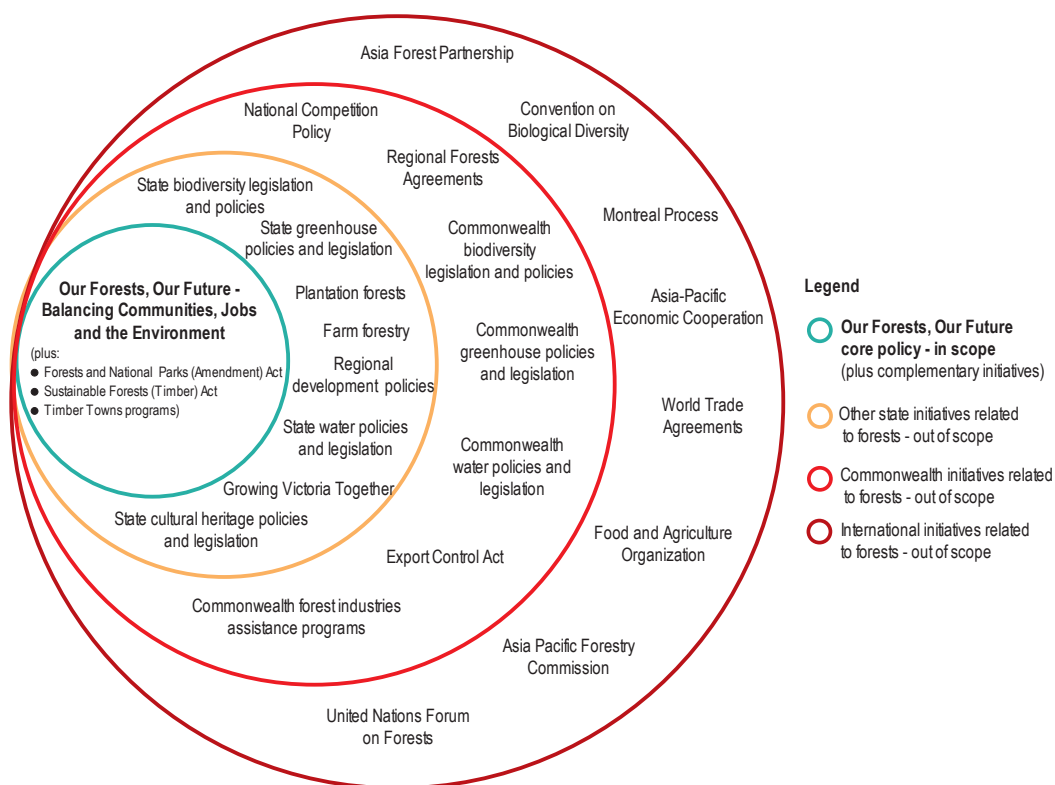
1.2.2 The Our Forests, Our Future policy

This audit report concentrates on the initiatives of an important sustainable forest management policy in Victoria: *Our Forests, Our Future - Balancing Communities, Jobs and the Environment*. The Victorian Government published and committed to Our Forests, Our Future in February 2002.

Figure 1A shows the multitude of state, Commonwealth and international policies and legislation that surround the Our Forests, Our Future policy and currently relate directly to forests and their management.

¹ Commonwealth of Australia, 1992, *National Forest Policy Statement – A New Focus for Australia’s Forests*, Australian Government, Canberra, quoted in: Australian Forestry Standard Limited, 2004, *Background Paper No. 6 – Sustainable Forest Management*, The Australian Forestry Standard, Yarralumla, viewed on 23 September 2004.
<<http://www.forestrystandard.org.au/paper06.html>>

FIGURE 1A: POLICY ENVIRONMENT



Source: Victorian Auditor-General's Office.

In focusing our audit work on Our Forests, Our Future, we also consider other statements that indicate how Our Forests, Our Future will be implemented. These are:

- *The Forests and National Parks (Amendment) Act 2003*
- *The Sustainable Forests (Timber) Act 2004*
- The Timber Town Investment and Infrastructure Programs.

The core commitment in Our Forests, Our Future (examined in phase 1 and reported in October 2003) was to reduce licensed sawlog volumes by about one-third (31 per cent) on a statewide basis as a key prerequisite to successfully implementing a sustainable forestry policy.

The ultimate objectives of the policy are to achieve, in the state forests open to commercial timber harvesting:

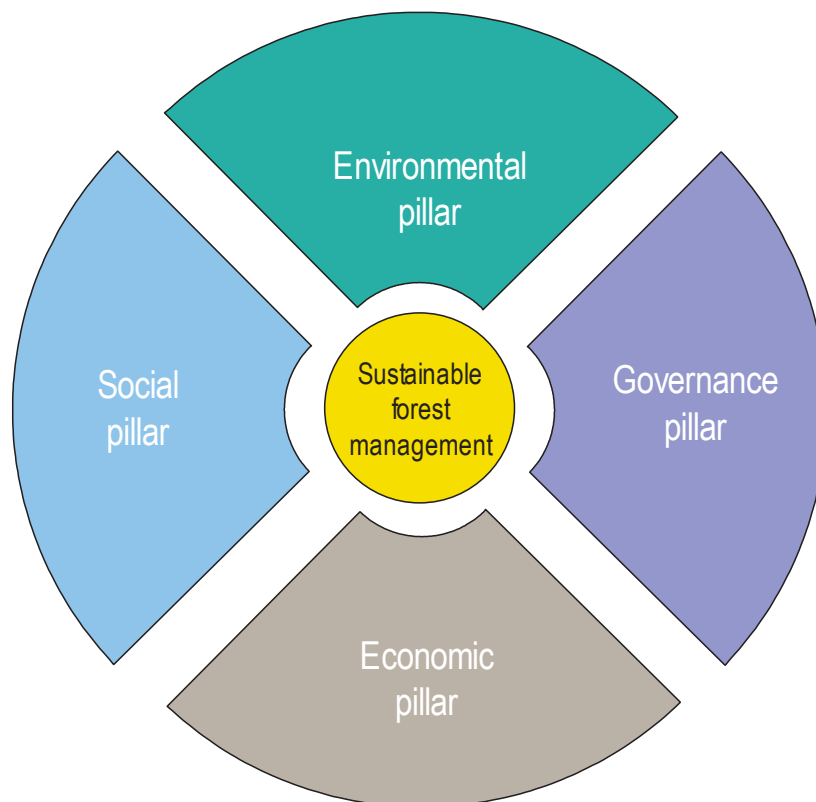
- sustainable forests
- community confidence in forest management initiatives
- sustainable timber industry
- sustainable regional communities.

1.3 Pillars of sustainable forest management

Historically, sustainable development has sought to achieve a balance between social, environmental and economic goals, and these 3 dimensions are often referred to as the “pillars of sustainability”. Recently, some organisations have incorporated a fourth dimension of sustainability: the “governance” aspect. We set out approaches to measuring and reporting on these pillars in *Beyond the triple bottom line: Measuring and reporting on sustainability*².

After examining the government’s Our Forests, Our Future policy, we mapped its initiatives into environmental, governance, economic and social pillars as the first step in establishing a basis for measuring the implementation of the policy. These pillars are shown in Figure 1B.

FIGURE 1B: THE PILLARS OF OUR FORESTS, OUR FUTURE



Source: Victorian Auditor-General's Office.

² Victorian Auditor-General's Office, 2004, *Beyond the triple bottom line: Measuring and reporting on sustainability*, Victorian Auditor-General's Office, Melbourne.

1.3.1 The environmental pillar

Under the environmental pillar, Our Forests, Our Future concentrates on 4 types of activities to achieve “sustainable forests”. In summary, these are:

- reducing timber harvesting to levels that sustain the ecological values of the forests
- more accurate resource estimations
- better managing human activity in the forests
- a broader interpretation of the meaning of “sustainable yields”.

1.3.2 The governance pillar

Our Forests, Our Future concentrates on 2 sets of activities to improve governance:

- broader community participation in forest management decisions
- more external scrutiny of performance.

1.3.3 The economic pillar

Under the economic pillar, Our Forests, Our Future concentrates on a series of industry development initiatives, including:

- establishing VicForests to separate the commercial and regulatory functions of forest management
- design and implementation of a new pricing and allocation system
- encouraging private sector investment in plantations
- restructuring the harvest and haulage sectors.

1.3.4 The social pillar

Under the social pillar, Our Forests, Our Future focuses on:

- providing immediate financial and training assistance to displaced workers and contractors
- supporting the social cohesion of rural and regional communities.

Recommendation

3. **That the Department of Sustainability and Environment consider making use of the “pillars” of sustainability in developing its performance measures for reporting on the implementation of Our Forests, Our Future.**



2. Audit assurance



2.1 Audit assurance

It is important that the wider community can gauge the success of the Our Forests, Our Future policy through its various phases of implementation. This part of the report underscores the importance of ensuring that indicators of performance are reinforced by the provision of timely independent audit assurance on those indicators. Appendix 3 provides more detail on those indicators, measures and standards that would be used as audit criteria to assess the success of the implementation of the Our Forests, Our Future policy.

2.1.1 Areas where audit assurance might be provided

Figure 2A is a summary table setting out the areas where audit assurance may be provided.

FIGURE 2A: AREAS FOR AUDIT ASSURANCE

Pillar/year	2005	2007	2010
Environmental	1. DSE completes the SFRI and updates it annually. 1.1 DSE enhances methods for estimating sustainable harvesting levels. 1.2 Minister's advisory panel provides advice on harvesting rates compared with resource estimates.	1.3 VicForests issues contracts (short and long-term), according to scientific confidence in resource estimates. 1.4 Contracts for up to 10 years.	1.5 Timber is harvested at or below the level at which it grows (harvesting "forest interest", not "forest capital"). 1.6 Forests ecosystems maintain their productive capacity. 1.7 Biological diversity is conserved. 1.8 Ecological processes are maintained.
Governance	2. EIAP advises Minister on annual harvesting performance. 2.1 EPA undertakes audits of the application of the Code of Forest Practices for timber production. 2.2 DSE publishes State of the Forest Report. 2.3 Stakeholders participate in the development of timber allocation orders.	2.4 EIAP annual report to minister. 2.5 Published EPA audit findings. 2.6 Published State of the Forest Report. 2.7 Finalised timber allocation order.	2.8 State forest management is open to scrutiny.
Economic		3. VicForests allocates contracts (or timber supply agreements) using a market-based system. 3.1 Potential customers compete for contracts (or timber supply agreements). 3.2 Market prices for timber.	3.3 Government secures fair returns from timber harvesting (per unit).
Social	Follow-up audit of phase 1.		

Source: Victorian Auditor-General's Office.

2.1.2 Selection criteria

Selected areas of the Our Forests, Our Future policy initiative that may be subject to future audit assurance, will be guided by our criteria for selection of performance audit areas. These criteria are:

- social, environmental and financial risks
- high public interest and/or materiality of public resources involved
- potential for improved resource/financial management
- potential for enhanced accountability.

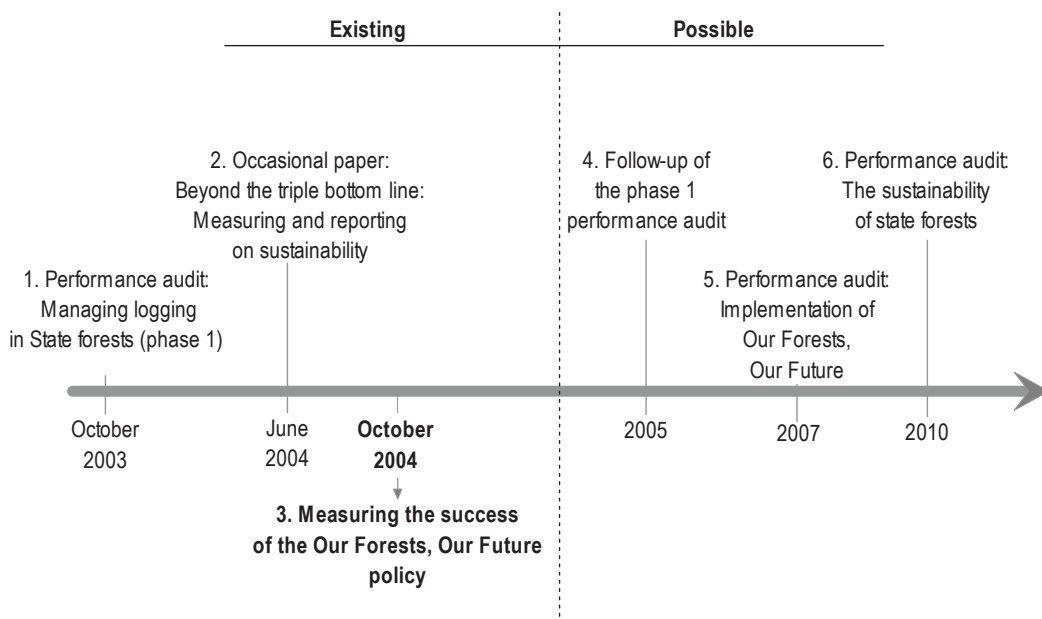
Sustainability policies inherently operate over the long term, and policy initiatives can be classified as either:

- a process (the various government activities)
- an output (the result of the activities)
- an outcome (the change in condition that is the result of the processes and outputs).

Following classification of the Our Forests, Our Future initiatives as processes, outputs or outcomes, it became apparent that many of the commitments in Our Forests, Our Future will not take effect until 2005 or 2007. It will, therefore, not be possible or meaningful to audit some initiatives at the outcome level until 2010.

Figure 2B illustrates the points in time when audit assurance might be provided in the future.

FIGURE 2B: TIMELINE OF EXISTING AND POSSIBLE FUTURE AUDITS



Source: Victorian Auditor-General's Office.

2.2 Performance indicators and standards

Around the world, the progress of sustainability initiatives is widely measured and reported on through the use of performance indicators. The key measuring and reporting frameworks for sustainable forest management (each using performance indicators) are:

- The Montréal Process Criteria and Indicators³
- The State of the Forests Reports⁴ and State of the Environment Reports⁵
- A Framework of Regional (sub-National) Level Criteria and Indicators of Sustainable Forest Management in Australia⁶.

The Victorian Government has agreements in place to report nationally against the Australian frameworks which, in turn, inform the Australian government's reporting at international levels.

2.2.1 Performance indicators as audit criteria

As in all audits, audit criteria are used to guide our inquiries, analyse the findings and draw conclusions. In this instance, in line with international and national practice in measuring and reporting on sustainability and sustainable forest management initiatives, performance indicators and measures form the basis of our audit criteria.

For each initiative, we have therefore developed performance indicators, performance standards and related information to serve as audit criteria. Our primary source of indicators has been the Our Forests, Our Future policy (including the complementary initiatives).

We have also drawn on the above Montréal and Australian measuring and reporting frameworks in order to not create an additional reporting burden on the agencies. We have conducted other research and consulted the agencies involved in implementing Our Forests, Our Future.

³ Montréal Process Working Group, 1998, *The Montréal Process*, Montréal, viewed 29 June 2004.
http://www.mpci.org/criteria_e.html.

⁴ Department of Agriculture, Fisheries and Forestry, 2004, *Australia's State of the Forests Report 2003*, Australian Government, Canberra, viewed 29 June 2004.

<<http://www.affa.gov.au/content/output.cfm?ObjectID=1F434DF7-3882-42C6-9BD9F1ED1336D03E>>

⁵ Department of Environment and Heritage, 2004, *State of the Environment Australia*, Australian Government, Canberra, viewed 29 June 2004.

<http://www.deh.gov.au/soe/>.

⁶ Department of Agriculture, Fisheries and Forestry, 2004, *Framework of Regional (sub-National) Level Criteria and Indicators of Sustainable Forest Management*, Australian Government, Canberra, viewed 29 June 2004.

<<http://www.affa.gov.au/content/publications.cfm?ObjectID=D4696EF3-97E9-4D27A00D0D586164433A>>.

Performance standards show the expected level of performance against each indicator. Where possible, the performance standards suggested are contained in the policy, Acts or programs underlying each initiative. In other cases, standards that are commonly accepted for each initiative will be used.

Appendix A of this report sets out in detail the performance indicators and standards for each initiative. They also show expected source data, and the agency and program responsible for the initiative.

Recommendation

- 4. That the Department of Sustainability and Environment follow international and national practice to use performance indicators in developing its performance measures for reporting on the implementation of Our Forests Our Future.**

The department could consider the material set out in Appendix A of this report in developing these indicators.

2.3 How we will report our assessments

Future audit reports will draw conclusions about the responsible agency's performance according to the standards set for each indicator or measure.

The intent of the audit reports will be to provide assurance about whether the Our Forests, Our Future policy is being implemented efficiently, effectively and achieving the intended outcomes.

The results of future audits will be reported in a scorecard format. This holistic approach captures the relationships, trade-offs and relative performance between the environmental, social, economic and governance pillars of the Our Forests, Our Future policy.

RESPONSE provided by Secretary, Department of Sustainability and Environment

The report is a useful contribution to the development of a measuring and reporting framework to support the implementation of the Government's sustainable forest management policy.

The Sustainable Forests (Timber) Act 2004 foreshadowed the development of a Sustainability Charter and Principles. The development of indicators, standards and data collection and reporting processes to support transparent reporting of performance against this Charter and Principles is underway. The Minister for Environment has committed to consulting with the community and stakeholders during this process.

With regard to the specific recommendations made in the report, Recommendations 1 and 2 suggest that this Department develop a set of performance measures to report to the community the progress of implementation of Our Forests Our Future and that we involve other agencies that have a part in the implementation of Our Forests Our Future in the development of these measures.

In principle these recommendations are supported. However many of the initiatives contained in the Our Forests Our Future policy were very specific and time limited and designed to deal with the immediate adjustment to the new timber resource levels. In particular the buyback of licensed timber volumes is complete and the worker and contractor assistance programs are in their final stages. Another issue is that with the establishment of VicForests, the responsibility for the development of the native forest timber industry including the development of a new pricing and allocation system and the design and management of contract terms are the responsibility of VicForests and the Department for Primary Industries. Similarly responsibility for regional development and the Timber Towns programs rests with the Department of Innovation, Industry and Regional Development.

Given these developments and reallocation of ministerial and agency responsibilities I consider that any measurement and reporting on the initiatives contained in the Our Forests Our Future policy should align with Departmental responsibilities. This Department will focus on the development of sustainable forest management and the Sustainability Charter and Principles and the monitoring and reporting processes to support this work. Within this context, the third and fourth recommendations of the report are supported.

The program logic diagrams and the tables of indicators, measures and standards developed as part of this report are a useful contribution to this work. It is noted that the identification of useable and efficient indicators and standards for the outcomes of:

- *maintenance of forests ecosystem productive capacity*
- *conservation of biological diversity*
- *maintenance of ecological processes*

RESPONSE provided by Secretary, Department of Sustainability and Environment - continued

is very challenging and the draft report acknowledges this by way of a footnote to the relevant tables.

As you would be aware this Department is already using Montreal Process Criteria and Indicators in meeting its national and international reporting requirements. These criteria and indicators will form the basis for reporting against the Sustainability Charter and Principles and have been drawn on by your team in the development of this report.

Further Comment by the Auditor-General

We acknowledge that there are a number of agencies responsible for the implementation of Our Forests, Our Future. The agencies responsible for individual components of the implementation are detailed in the indicator/measure tables for each pillar. Application of the indicators and measures during future audits will involve the responsible agencies.

RESPONSE provided by Chief Executive Officer, VicForests

Thank you for the opportunity to comment on the assessment tools presented in the draft publication. In general VicForests supports the methodology and approach presented by your office in the document.

We note the indicators, measures and standards that you propose to use in any future audit activity. In addition, VicForests have developed a range of targets and KPIs, outlined in our draft business plan, which will form the basis for reporting to the shareholder, being the Treasurer.

Further Comment by the Auditor-General

The Victorian Government's sustainable forest management policy may evolve during its implementation. My Office will review the accuracy and appropriateness of any audit criteria adopted before commencing an audit.

RESPONSE provided by Secretary, Department for Victorian Communities

The Department for Victorian Communities has conducted the administration of the Forest Worker and Contractor assistance programs in accordance with the Our Forests, Our Future policy.

I note the contribution my department has made in assisting your office in the development of the report and acknowledge that performance indicators and measures are an important component of reporting to the community on the success of the Our Forests, Our Future policy.

I have no comments to make with respect to the draft report.

RESPONSE provided by Secretary, Department of Innovation, Industry and Regional Development

My department has noted the progress being made towards a framework of performance indicators and measures that may be used to assess whether the implementation of the Our Forests Our Future policy is successful. It accepts the basic framework suggested and supports the recommendations contained in the proposed report.

One minor point might be considered in relation to terminology. The “Economic Pillar” as defined is limited to issues related to forestry, whereas much of the Timber Towns program activity was essentially economic in nature. This could be addressed under the definition of the “Social Pillar” (1.3.4), by reference to the “Socio-economic” cohesion of rural and regional communities.



Appendix A. Selected initiatives in detail



Using the figures

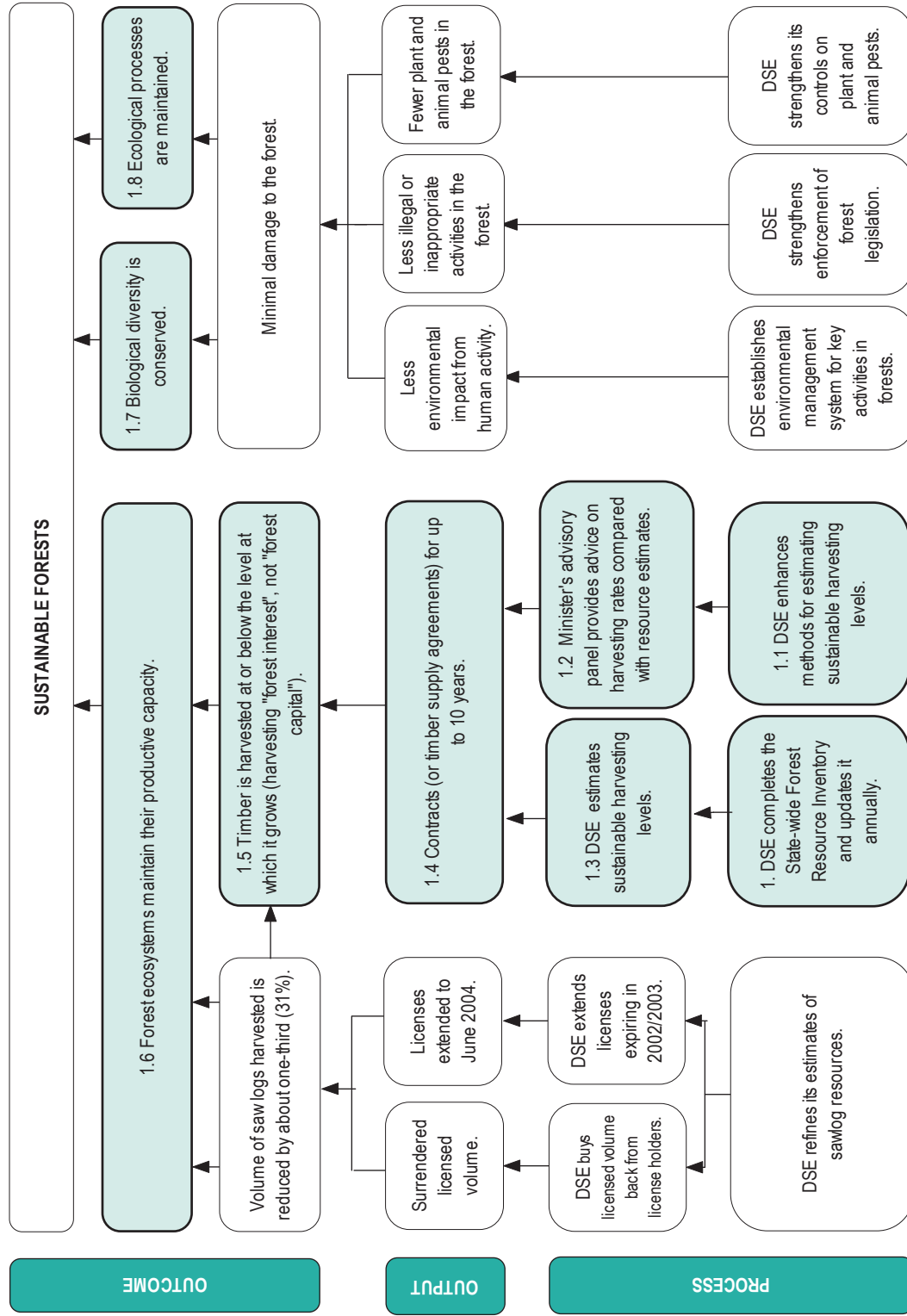
In Figures A1 to A8 that follow, the initiatives in Our Forests, Our Future have been mapped in program logic diagrams according to the environmental, governance, economic and social pillars.

The program logic diagrams (Figures A1, A3, A5 and A7) show all the initiatives that were mapped. The ones selected as areas of future audit interest are shaded in colour. The selected initiatives are also summarised in Part 2 (Figure 2A). See also Appendix B for more details about the process for choosing the initiatives.

Program logic diagrams depict a relationship between processes, outputs and outcomes. At the bottom of the diagrams, the “processes” are various government activities; the “outputs” are the result of the activities and together, the processes and outputs eventually lead to a change in condition, being the “outcome” at the top of the diagrams.

Following each program logic diagram are the performance indicators and measures, performance standards, data source and department or program responsible, for each initiative.

FIGURE A1: SELECTED INITIATIVES IN THE ENVIRONMENTAL PILLAR



□ Initiatives selected for future audit attention.
 Source: Victorian Auditor-General's Office.

FIGURE A2: PERFORMANCE INDICATORS AND MEASURES FOR THE ENVIRONMENTAL PILLAR

Initiative	Indicator or measure	Performance standard	Data source	Department/program
Process				
1. DSE completes the Statewide Forest Resource Inventory (SFRI) and updates it annually.	• Time taken to complete the Statewide Forest Resource Inventory (SFRI).	• The Inventory should be completed by early 2005.	• DSE/SFRI.	• Land Stewardship and Biodiversity (DSE).
	• Cost of completing the SFRI.			
	• Regularity of updating and monitoring of information in the SFRI.	• The information is updated annually, and monitored, and continuously improved.	• DSE databases.	• Land Stewardship and Biodiversity (DSE).
	• Statistical accuracy of the SFRI.	• Targets for confidence ratings in Expert Data Reference Group's (EDRG) ("Vanclay") report ¹ are achieved; in accordance with DSE business plans timeliness.	• DSE business plans. • Annual harvesting levels.	• Land Stewardship and Biodiversity (DSE).
1.1 DSE enhances methods for estimating sustainable harvesting levels.	• Comprehensive (coverage) of the SFRI.	• From February 2005, 100% coverage of areas subject to commercial harvesting.	• SFRI database.	• Land Stewardship and Biodiversity (DSE).
	• Changes in methods for estimating sustainable harvesting levels.	• DSE implements the Expert Data Reference Group's recommendations on improving DSE's data quality and analysis.	• DSE methodologies. • EDRG report.	• Land Stewardship and Biodiversity (DSE).

¹ J Vanclay, & B Turner, 2001, "Evaluation of data and methods for estimating the sustainable yield of sawlogs in Victoria", Report of the Expert Data Reference Group, Government of Victoria, Melbourne, October 2001.

FIGURE A2: PERFORMANCE INDICATORS AND MEASURES FOR THE ENVIRONMENTAL PILLAR - continued

Initiative	Indicator or measure	Performance standard	Data source	Department/program
1.2	Minister's advisory panel provides advice on harvesting rates compared with resource estimates.	<ul style="list-style-type: none"> Improvements in data stimulated by advice. The panel's advice leads to increased accuracy in harvesting rates over time. 	<ul style="list-style-type: none"> Panel advice. Modelling methodology. 	<ul style="list-style-type: none"> Land Stewardship and Biodiversity (DSE).
1.3	DSE estimates sustainable harvesting levels.	<ul style="list-style-type: none"> Contracted volume compared with resource estimates. All contracts that are allocated are informed by estimated resource availability. Proportion of contracts requiring adjustments over a 4-year cycle. The sustainable harvesting levels should not require major adjustments over a 5-year rolling cycle (barring natural events and changes in markets, technology or silvicultural knowledge). 	<ul style="list-style-type: none"> Contracts. Modelling information. Contract information. 	<ul style="list-style-type: none"> Land Stewardship and Biodiversity (DSE). Land Stewardship and Biodiversity (DSE). VicForests.
Output				
1.4	Contracts (or timber supply agreements) for up to 10 years.	<ul style="list-style-type: none"> Terms of contracts. All contracts that are allocated are informed by confidence levels of resource availability (according to ratings given for Forest Management Areas in Vanclay report). Allocations in contracts. All contracts that are allocated are informed by resource estimates from DSE modelling. 	<ul style="list-style-type: none"> Contract information. Contract information. 	<ul style="list-style-type: none"> VicForests. VicForests.
Outcome				
1.5	Timber is harvested at or below the level at which it grows.	<ul style="list-style-type: none"> Annual harvest levels relative to forest growth. From 2007, harvest volumes should not exceed growth volumes (on a 5-year running average). The Our Forests, Our Future reductions (0 - 80%) are maintained until 2007 in each FMA (barring natural events and changes in markets or technology). 	<ul style="list-style-type: none"> DSE. 	<ul style="list-style-type: none"> VicForests. DSE.

FIGURE A2: PERFORMANCE INDICATORS AND MEASURES FOR THE ENVIRONMENTAL PILLAR - continued

Initiative	Indicator or measure	Performance standard	Data source	Department/program
	<ul style="list-style-type: none"> Annual sustainable volume minus harvested volume of sawlogs. 	<ul style="list-style-type: none"> Harvesting should not exceed sustainable harvesting levels (on a 5-year running average, starting from 2007). 	<ul style="list-style-type: none"> Harvesting information. 	<ul style="list-style-type: none"> VicForests. DSE.
	<ul style="list-style-type: none"> Total percentage of land area harvested annually. 	<ul style="list-style-type: none"> Over a 5-year period, total area harvested per year does not exceed the area defined in the Allocation Orders. 	<ul style="list-style-type: none"> Harvesting information. 	<ul style="list-style-type: none"> VicForests. DSE.
	<ul style="list-style-type: none"> Compliance with contract adjustments. 	<ul style="list-style-type: none"> If an unforeseen event (like wildfire) results in a significant reduction in the sustainable harvesting levels, all affected licences or contracts are adjusted to reflect the formally assessed impacts on resource availability. 	<ul style="list-style-type: none"> Contracts information. 	<ul style="list-style-type: none"> VicForests (contracts). DSE (allocation order).
1.6 Forest ecosystems maintain their productive capacity.	<ul style="list-style-type: none"> Annual area harvested and successfully regenerated. See also biodiversity and ecosystem indicators (Outcome 1.7 and 1.8). 	<ul style="list-style-type: none"> Regeneration meets agreed silviculture standards. Regeneration is sufficient to support future timber harvesting at contracted levels (including after wildfire and/or disease). Trends in indicators for soil, water and biodiversity remain neutral or improve over time. 	<ul style="list-style-type: none"> DSE. 	<ul style="list-style-type: none"> DSE (sets standard). VicForests (regeneration). Land Stewardship and Biodiversity (DSE).

FIGURE A.2: PERFORMANCE INDICATORS AND MEASURES FOR THE ENVIRONMENTAL PILLAR - continued

Initiative	Indicator or measure	Performance standard	Data source	Department/program
1.7 Biological diversity is conserved ² .	<ul style="list-style-type: none"> The status (threatened, rare, vulnerable, endangered or extinct) of forest-dependent species at risk of not maintaining viable breeding populations. Population levels of representative species from diverse habitats monitored across their range. Extent of area by forest type relative to total forest area. Expression of forest structure. 	<ul style="list-style-type: none"> Trends in indicators for biodiversity (species, genetic and ecosystem diversity) remain neutral or positive from the baseline date. There is enough variation in forest structure to maintain viable breeding populations of representative species. Trends in forest structure remain neutral or positive from the baseline date. In disturbed areas, native species as far as practicable, maintain local gene pools and species mixes. 	<ul style="list-style-type: none"> DSE statement on biodiversity. DSE expression of forest structure. 	<ul style="list-style-type: none"> Land Stewardship and Biodiversity (DSE). Land Stewardship and Biodiversity (DSE). VicForests.

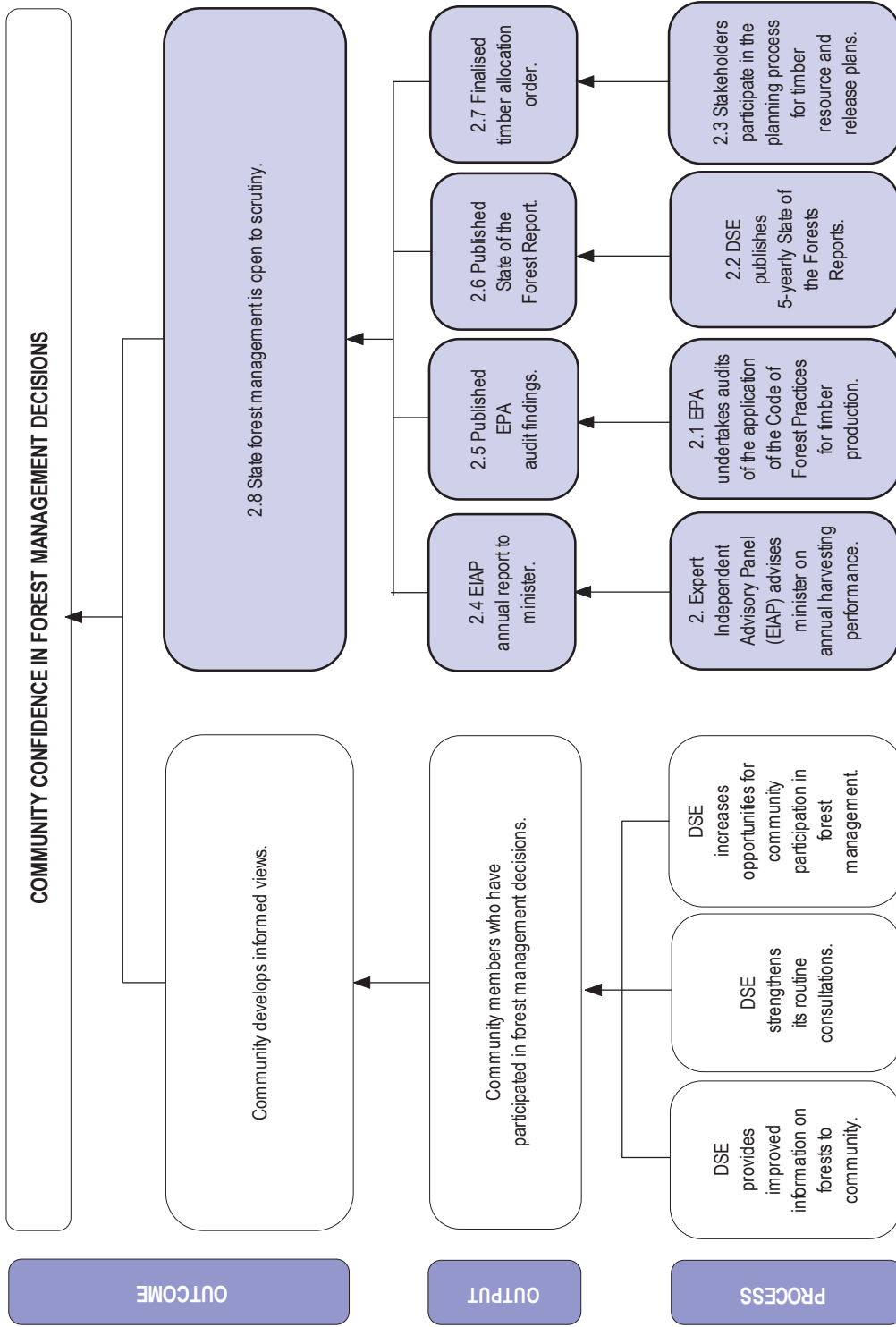
² This area of measuring and reporting is still developing. The agencies involved in developing indicators in this area may consider their applicability to the entire forests estate.

FIGURE A2: PERFORMANCE INDICATORS AND MEASURES FOR THE ENVIRONMENTAL PILLAR - continued

Initiative	Indicator or measure	Performance standard	Data source	Department/program
1.8 Ecological processes are maintained ³ .	<ul style="list-style-type: none"> • Soil and water quality from forested catchments. 	<ul style="list-style-type: none"> • Soil and water quality during estate management (e.g. track/road construction) and harvesting accord with the Code's soil and water standards. 	<ul style="list-style-type: none"> • DSE Statement of soil protection and water quality and yield from forested catchment. 	<ul style="list-style-type: none"> • Land Stewardship and Biodiversity (DSE).
	<ul style="list-style-type: none"> • Water yield from forested catchments. 	<ul style="list-style-type: none"> • Water yield: Comparison with Lane 2000 study – yield should remain comparable to the 2000 results for 15 forested catchments. 	<ul style="list-style-type: none"> • DSE water yield monitoring. 	<ul style="list-style-type: none"> • Land Stewardship and Biodiversity (DSE).
	<ul style="list-style-type: none"> • Commitments under Flora and Fauna Guarantee Act are met. 	<ul style="list-style-type: none"> • All commitments under the Flora and Fauna Guarantee Act are met. 	<ul style="list-style-type: none"> • DSE. 	<ul style="list-style-type: none"> • Land Stewardship and Biodiversity (DSE).
	<ul style="list-style-type: none"> • Indicators for forest condition. 	<ul style="list-style-type: none"> • Forest condition should improve or remain neutral over time. 	<ul style="list-style-type: none"> • DSE statement of forest health. 	<ul style="list-style-type: none"> • Land Stewardship and Biodiversity (DSE).

³ This area of measuring and reporting is still developing. The agencies involved in developing indicators in this area would be expected to reach agreement about the baseline information to measure success against.

FIGURE A3: SELECTED INITIATIVES IN THE GOVERNANCE PILLAR



□ Initiatives selected for future audit attention.
 Source: Victorian Auditor-General's Office.

FIGURE A4: PERFORMANCE INDICATORS AND MEASURES FOR THE GOVERNANCE PILLAR

Initiative	Indicator or measure	Performance standards	Data source	Department/program
Process				
2. Expert Independent Advisory Panel (EIAP) advises Minister on annual harvesting performance.	<ul style="list-style-type: none"> The EIAP fulfils its terms of reference. The EIAP operates independently. 	<ul style="list-style-type: none"> n.a. n.a. 	<ul style="list-style-type: none"> Panel Terms of Reference. Panel performance. Panel members. 	<ul style="list-style-type: none"> Land Stewardship and Biodiversity (DSE). Land Stewardship and Biodiversity (DSE).
2.1 Environment Protection Authority (EPA) undertakes audits of the application of the Code of Forest Practices for timber production.	<ul style="list-style-type: none"> Cost per EPA audit. Representativeness of EPA audit sample. Proportion of EPA recommendations implemented by DSE. 	<ul style="list-style-type: none"> Costs are comparable with similar audit programs in other states. At least 4 FMAs⁴ are subject to EPA's audits every year and audits cover a range of forestry activities. All accepted audit recommendations are implemented by DSE. 	<ul style="list-style-type: none"> EPA divisional annual reports. Reports from other states. EPA website. 	<ul style="list-style-type: none"> EPA Environmental Auditing Division. EPA Environmental Auditing Division. Land Stewardship and Biodiversity (DSE).
2.2 DSE publishes five-yearly State of the Forest Reports.	<ul style="list-style-type: none"> Level of updating and monitoring of data for use in the State of the Forest Reports. 	<ul style="list-style-type: none"> Data for the State of the Forest Report is updated and monitored at least annually. 	<ul style="list-style-type: none"> DSE reports on compliance. DSE databases. 	<ul style="list-style-type: none"> Land Stewardship and Biodiversity (DSE).

⁴ Or, if Forest Management Areas are no longer in operation, at least 5-10 per cent of total number of logging coupes are subject to audits every year.

FIGURE A4: PERFORMANCE INDICATORS AND MEASURES FOR THE GOVERNANCE PILLAR - continued

Initiative	Indicator or measure	Performance standards	Data source	Department/program
2.3 Stakeholders participate in the planning process for the forest management plans.	<ul style="list-style-type: none"> The number and type⁵ of opportunities provided for stakeholder participation in the planning process. 	<ul style="list-style-type: none"> In each FMA (or similar), there is more than one opportunity for stakeholders to participate and more than one way to do so. 	<ul style="list-style-type: none"> DSE databases. 	<ul style="list-style-type: none"> Land Stewardship and Biodiversity (DSE).
Output				
2.4 EIAP annual report to Minister.	<ul style="list-style-type: none"> Timeliness and regularity of EIAP report. Minister's acceptance of EIAP's recommendations. Dissemination of EIAP report to the wider community. Levels of awareness of the EIAP and its reports among key stakeholders⁶. Key stakeholders' levels of understanding of the report. 	<ul style="list-style-type: none"> Information is reported according to agreed timelines on a yearly basis. Minister accepts 100% of the recommendations in the annual report. Information contained in the EIAP annual report is publicly available. Key stakeholders are aware of the EIAP and its reports. Key stakeholders can understand and use the information contained in the report (comprehensiveness, accuracy, technical language etc.). 	<ul style="list-style-type: none"> Tabling dates. Ministerial response to annual report. DSE website. Key stakeholders. Key stakeholders. 	<ul style="list-style-type: none"> Land Stewardship and Biodiversity (DSE). Land Stewardship and Biodiversity (DSE). Land Stewardship and Biodiversity (DSE). Land Stewardship and Biodiversity (DSE). Land Stewardship and Biodiversity (DSE).

⁵ Type of opportunity includes forestry forums, invitations to comment on drafts, serving on committees, joint projects, correspondence etc.

⁶ "Stakeholders" refers to all those involved with, or interested in sustainable forest management at a local (Forest Management Area or similar) level.

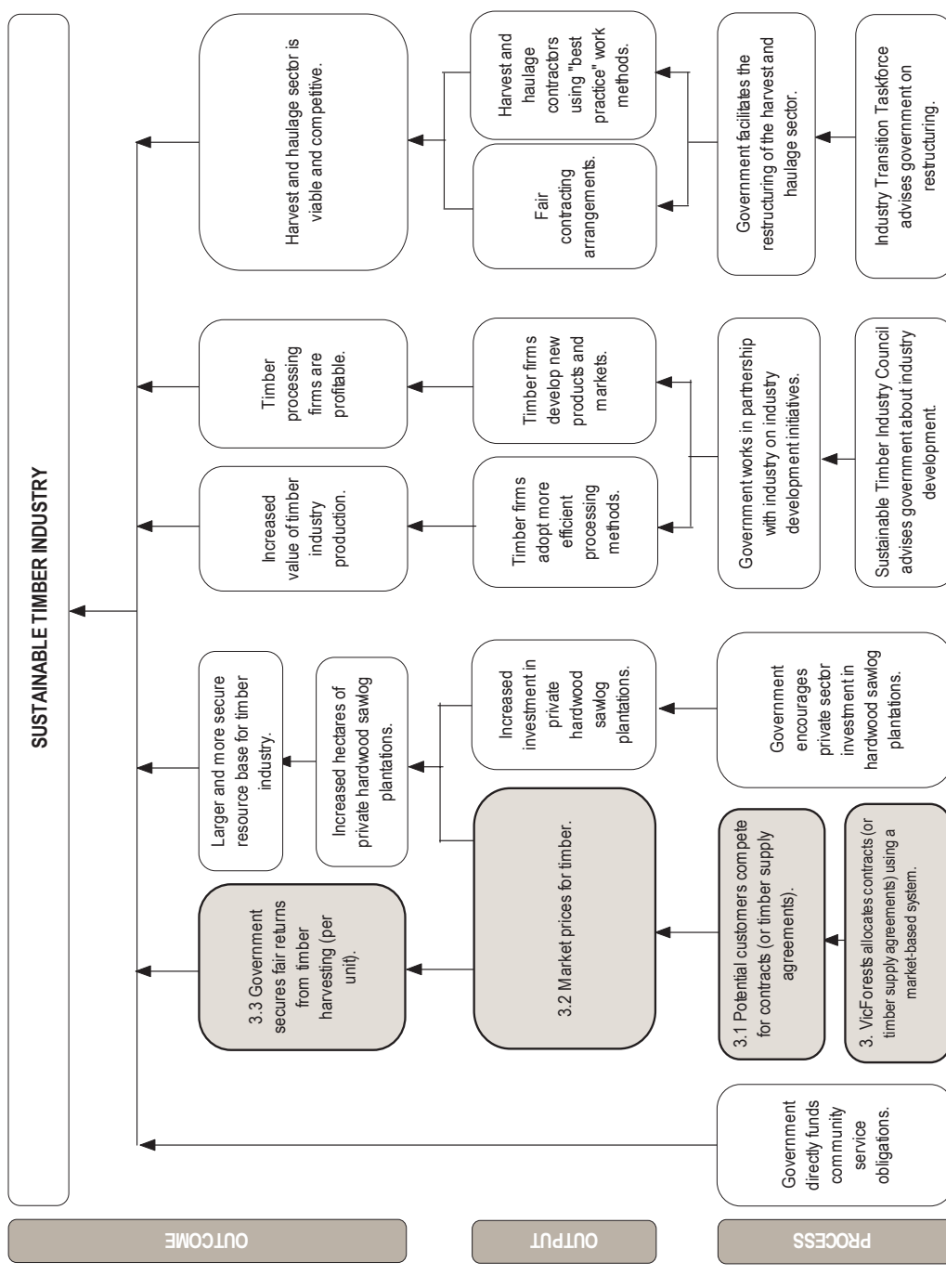
FIGURE A4: PERFORMANCE INDICATORS AND MEASURES FOR THE GOVERNANCE PILLAR - continued

Initiative	Indicator or measure	Performance standards	Data source	Department/program
2.5 Published Environment Protection Agency (EPA) audit findings.	<ul style="list-style-type: none"> Regularity of EPA auditing and reporting. 	<ul style="list-style-type: none"> Audits are undertaken at least yearly and are reported according to timelines (within 4 months of completion of audits). 	<ul style="list-style-type: none"> EPA website. 	<ul style="list-style-type: none"> EPA Environmental Auditing Division.
	<ul style="list-style-type: none"> Levels of key stakeholder awareness of the EPA audits and reports. 	<ul style="list-style-type: none"> Key stakeholders are aware of the audits and the reports. 	<ul style="list-style-type: none"> Key stakeholders. 	<ul style="list-style-type: none"> EPA Environmental Auditing Division.
	<ul style="list-style-type: none"> Levels of key stakeholder satisfaction with the quality of the EPA reports. 	<ul style="list-style-type: none"> Key stakeholders are satisfied with the quality of information (comprehensiveness, accuracy etc.) contained in the audit reports. 	<ul style="list-style-type: none"> Key stakeholders. 	<ul style="list-style-type: none"> EPA Environmental Auditing Division.
2.6 Published State of the Forest Report.	<ul style="list-style-type: none"> Regularity of reporting. 	<ul style="list-style-type: none"> Information is reported according to agreed timelines on a 5-yearly basis. 	<ul style="list-style-type: none"> Publishing dates. 	<ul style="list-style-type: none"> Land Stewardship and Biodiversity (DSE).
	<ul style="list-style-type: none"> Levels of key stakeholder awareness of the State of the Forest Report. 	<ul style="list-style-type: none"> Key stakeholders are aware of the State of the Forest Report. 	<ul style="list-style-type: none"> Key stakeholders. 	<ul style="list-style-type: none"> Land Stewardship and Biodiversity (DSE).
	<ul style="list-style-type: none"> Levels of key stakeholder satisfaction with the State of the Forest Report. 	<ul style="list-style-type: none"> Key stakeholders are satisfied with the quality of information (including comprehensiveness and accuracy). 	<ul style="list-style-type: none"> Key stakeholders. 	<ul style="list-style-type: none"> Land Stewardship and Biodiversity (DSE).
2.7 Published forest management plan.	<ul style="list-style-type: none"> Levels of key stakeholder awareness of the forest management plan. 	<ul style="list-style-type: none"> Key stakeholders are aware of the planning process and the forest management plan. 	<ul style="list-style-type: none"> Key stakeholders. 	<ul style="list-style-type: none"> Land Stewardship and Biodiversity (DSE).
	<ul style="list-style-type: none"> Levels of key stakeholder satisfaction with the forest management plan. 	<ul style="list-style-type: none"> Key stakeholders are satisfied with the quality of the forest management plan (including the level to which it incorporates stakeholders' concerns). 	<ul style="list-style-type: none"> Key stakeholders. 	<ul style="list-style-type: none"> Land Stewardship and Biodiversity (DSE).

FIGURE A4: PERFORMANCE INDICATORS AND MEASURES FOR THE GOVERNANCE PILLAR - continued

Initiative	Indicator or measure	Performance standards	Data source	Department/program
	<ul style="list-style-type: none"> Levels of key stakeholder satisfaction with the forest management planning process. 	<ul style="list-style-type: none"> Key stakeholders are satisfied with the forest management planning process. 	<ul style="list-style-type: none"> Key stakeholders. 	<ul style="list-style-type: none"> Land Stewardship and Biodiversity (DSE).
Outcome				
2.8 State forest management is open to scrutiny.	<ul style="list-style-type: none"> Stakeholder perceptions of how the openness of state forest management has changed. 	<ul style="list-style-type: none"> Key stakeholders consider that the scrutiny of state forest management has improved since the baseline date. 	<ul style="list-style-type: none"> Key stakeholders. 	<ul style="list-style-type: none"> Land Stewardship and Biodiversity (DSE).

FIGURE A5: SELECTED INITIATIVES IN THE ECONOMIC PILLAR



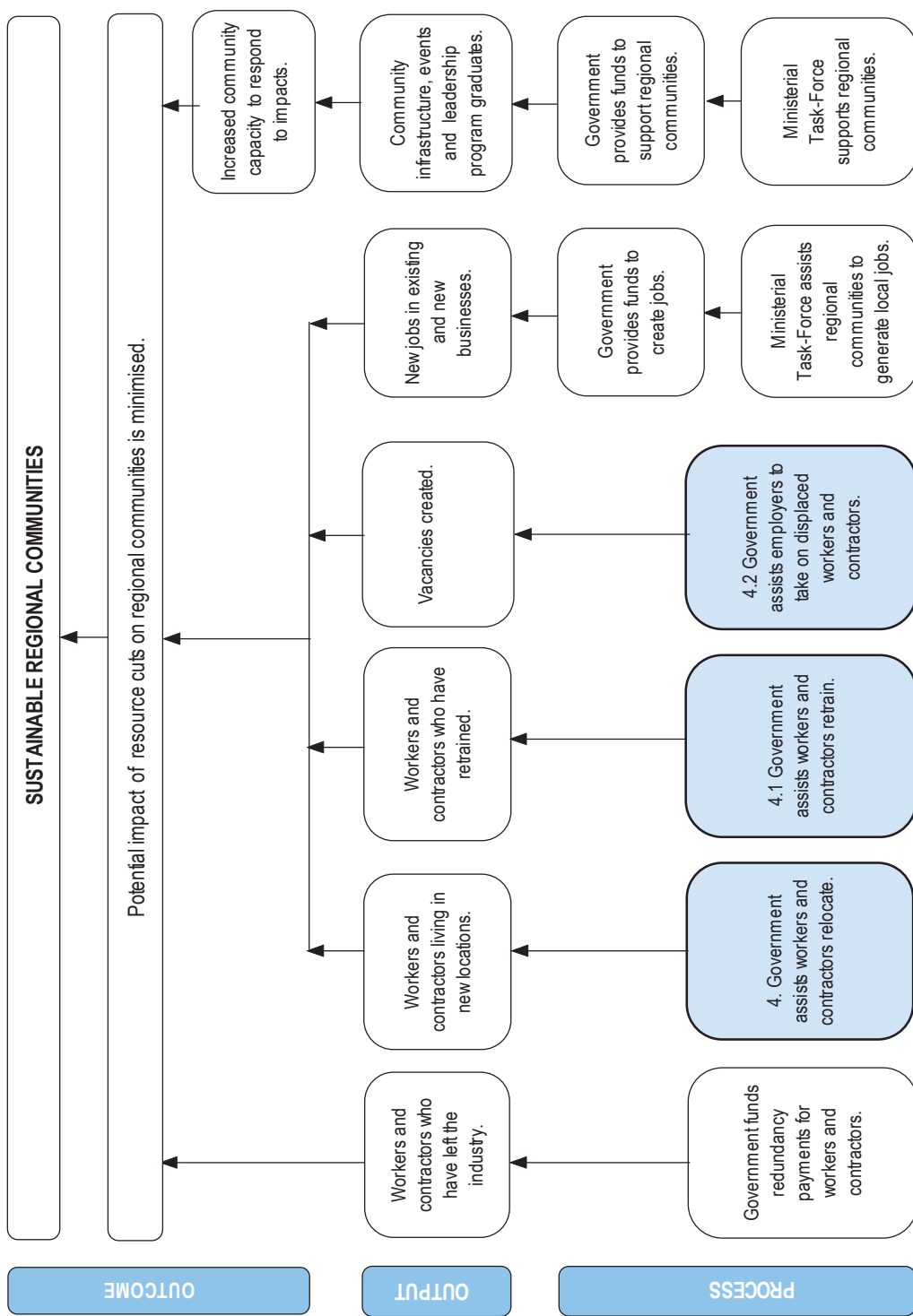
□ Initiatives selected for future audit attention.
 Source: Victorian Auditor-General's Office.

FIGURE A6: PERFORMANCE INDICATORS AND MEASURES FOR THE ECONOMIC PILLAR

Initiative	Indicator or measure	Performance standards (where applicable)	Data source	Department/ program
Process				
3. VicForests allocates contracts (or timber supply agreements) using a market-based system.	• VicForests's cost coverage and return on assets.	• VicForests at least covers its costs and earns a positive return on its assets.	• VicForests.	• VicForests. • Program not established.
	3.1 Potential customers compete for contracts (or timber supply agreements).	• The price of contracts. • Process used to allocate timber contracts.	• VicForests. • VicForests.	• VicForests. • Program not established.
Output				
3.2 Market prices for timber.	• Proportion of timber that is allocated at market prices.	• Prices for all of the timber allocated are established through the market-based process.	• VicForests.	• VicForests. • Program not established.
Outcome				
3.3 Government secures fair returns from timber harvesting (per unit).	• Average rate of return from timber harvesting for all Forest Management Areas (or equivalent categories).	• Return to government is greater than the cost to government of commercial timber harvesting (e.g. roading, regeneration).	• DTF. • VicForests.	• VicForests. • Program not established.

⁷ While VicForests is not subject to Victorian Government Purchasing Board policies, these are a commonly accepted standard for audit guidance in the Victorian public sector.

FIGURE A7: SELECTED INITIATIVES IN THE SOCIAL PILLAR



□ Initiatives selected for future audit attention.
 Source: Victorian Auditor-General's Office.

FIGURE A8: PERFORMANCE INDICATORS AND MEASURES FOR THE SOCIAL PILLAR (FOLLOW-UP AUDIT)

Initiative	Indicator or measure (as per phase 1 audit)	Performance standards (where applicable)	Data source	Department/ program
Process				
4. Government assists workers and contractors to relocate.	<ul style="list-style-type: none"> Administrative cost of worker and contractor relocation programs as a proportion of the total program costs. 	<ul style="list-style-type: none"> The proportion is less than 30 per cent. 	<ul style="list-style-type: none"> DVC. FAFPESC. 	<ul style="list-style-type: none"> DVC Employment Division. Forest Worker And Contractor Assistance Programs Unit.
4.1 Government assists workers and contractors to retrain.	<ul style="list-style-type: none"> Administrative cost of worker and contractor retraining programs as a proportion of total program costs. 	<ul style="list-style-type: none"> The proportion is less than 30 per cent. 	<ul style="list-style-type: none"> DVC. FAFPESC. 	<ul style="list-style-type: none"> DVC Employment Division. Forest Worker And Contractor Assistance Programs Unit.
4.2 Government assists employers to take on displaced workers and contractors (Employer Incentive Scheme).	<ul style="list-style-type: none"> Level of funding made available to assist displaced workers and contractors secure employment. Proportion of jobs created through the Employer Incentive Scheme and filled by displaced timber workers and contractors. 	<ul style="list-style-type: none"> The EIS program for timber industry workers is equal to or less than EIS programs for other industries. 100 per cent of jobs created through the Employer Incentive Scheme were filled by displaced timber industry workers and contractors. 	<ul style="list-style-type: none"> DVC. FAFPESC. DVC FAFPESC 	<ul style="list-style-type: none"> DVC. DVC.



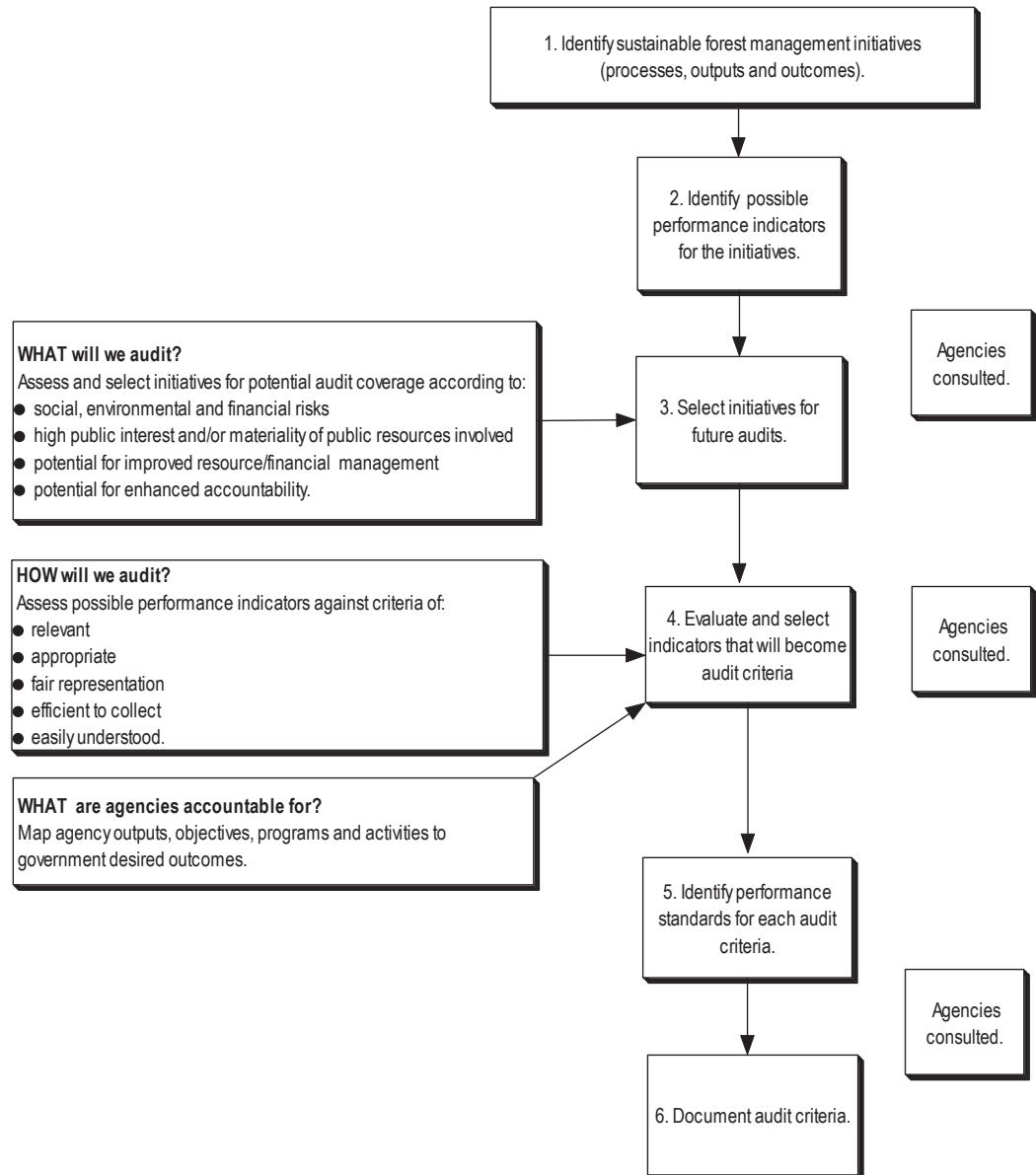
Appendix B. Method



Method

Figure B1 summarises the steps taken in the process to develop the indicators, measures and standards.

FIGURE B1: PROCESS FOR DEVELOPING THE INDICATORS, MEASURES AND STANDARDS



Source: Victorian Auditor-General's Office.

Assistance to the audit team

A steering committee was established to provide specialist assistance to the audit. Membership included:

- Dr John Owen, Principal Fellow, Centre for Program Evaluation, The University of Melbourne
- Dr Ian McPhail, Commissioner for Environmental Sustainability, Department of Sustainability and Environment.

Ms Pauline Clancy, Director, Strategy and Monitoring Branch, Parks and Forests Division, Department of Sustainability and Environment provided expertise and advice to the audit team.

Selecting performance indicators

The initiatives in Our Forests, Our Future were mapped into program logic diagrams, which are provided in Appendix A of this report.

Figure B2 outlines the selection criteria used to choose performance indicators that will form the basis for the audit criteria in future audits.

FIGURE B2: SELECTING PERFORMANCE INDICATORS

Selection criteria	Definition
Relevant	<p>The indicator should have a logical and consistent relationship to the agency's objectives, which are linked to the government's desired outcomes.</p> <p>The agency or agencies are accountable for achievement of the objective and for reporting against the indicator.</p> <p>A set of key measures which best expresses the performance of an agency/program having regard for:</p> <ul style="list-style-type: none"> • Immediate deliverables • Long-term sustainable supply including human, physical and intellectual elements.
Appropriate	<p>The indicator gives sufficient information to assess the extent to which the agency has achieved a pre-determined target, goal or outcome, by reference to:</p> <ul style="list-style-type: none"> • the trend in performance over time • performance relative to performance of similar agencies • performance relative to pre-determined benchmarks. <p>The indicator should be accompanied by a standard, or at least adequate notes to assist the user to draw meaningful conclusions about performance.</p>
Represents fairly	<p>In order to fairly represent the performance of an agency, the information provided must be capable of measurement, represent what it purports to indicate, consistently and without bias, and be accurate and auditable.</p>

Source: Victorian Auditor-General's Office.

There are similar selection criteria for performance measures. These are detailed in our Office's November 2001 performance audit report *Departmental performance management and reporting*, available at <www.audit.vic.gov.au>.

We also established, in consultation with departmental stakeholders, what aspect of the initiatives different agencies were responsible for implementing.

This project has explored the applicability of a place-based systems approach to assess the balancing of the environmental, social, economic and governance pillars of Our Forests, Our Future. This approach takes into account that rural communities' reliance on the timber industry varies across Victoria. The licensed volume of timber bought back through Our Forests, Our Future also varied across the different Forest Management Areas. When applied in different places, the indicators and measures will produce different results.

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Implementing Local Priority Policing in Victoria	May 2001
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Managing Victoria's growing salinity problem	June 2001
Post-acute care planning (a)	June 2001
Management of major injury claims by the Transport Accident Commission	October 2001
Teacher work force planning	November 2001
Management of injury claims by the Victorian WorkCover Authority	November 2001
Departmental performance management and reporting	November 2001
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Managing medical equipment in public hospitals	March 2003
Performance management and reporting: Progress report and a case study	April 2003
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Electronic procurement in the Victorian government	June 2003
Improving literacy standards in government schools	October 2003
Managing logging in State forests	October 2003
Addressing the needs of Victorian prisoners	November 2003
Beating the bugs: Protecting Victoria's economically significant crops from pests and diseases	April 2004
Delivery of home and community care services by local government	May 2004
Budget development and management within departments	May 2004
Managing emergency demand in public hospitals	May 2004
Maintaining public housing stock	June 2004

(a) This report is included in Part 3.2, Human Services section of the *Report on Ministerial Portfolios*, June 2001.

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