



BlackburneGroup
CHARTERED ACCOUNTANTS

Bush Telegraph

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An occasional newsletter about topical matters in the contracting industry.

Markets

Might as well get straight into what really matters to you. As we all know excessive stocks in China have resulted in significant price drops and associated decrease in volume. While other markets are holding up reasonably none are of a size able to absorb the surplus volumes.

Reasons for the current situation involve a combination of speculative buying by Chinese traders pushing up prices to unrealistic levels and increased supply in response to that, partially by NZ but more particularly by North America as a consequence of the rising prices making the Chinese market more attractive to North American suppliers.

The current significant drop in pricing has resulted in reduced volumes from New Zealand and is expected to have more impact on the North American supply. The reality is that while we have enjoyed the recent rise in prices, even current pricing compares favourably to what it was a couple of years ago i.e. we can suck it up (to an extent) whereas the North Americans are much more dependent on high prices to make volume supply attractive.

So in a classic supply and demand sense volumes will start to balance out over time. But with stocks in China considerably exceeding normal levels, it is expected to take quite a few months for this to work through the system. Having talked to numerous exporters the common expectation is for demand/pricing to pick up towards the end of the first quarter next year. In the meantime tighten your belt.

While some owners with established markets appear to be riding through with little affect the general response of forest owners in New Zealand has been a range of the traditional measures i.e:

- Quotas/short weeks
- Extended Christmas shutdown

- Lay off of crews, particularly those more directly exposed to the "woodlot" environment
- Moving crews to low production environments e.g. roadlining

We have been asked by a number of contractors about the recent Logger magazine article suggesting markets were improving. Unfortunately that is now provably incorrect. To be fair to Logger at the time the article was written there were signs of market uplift, but remember there is a lag between writing and publishing articles. In hindsight that upturn was what the economists call a "dead cat bounce".

What can you do?

While contractors are at the end of the supply food chain and can't control the markets there are steps you can look at to assist your position, including:

- Operate efficiently e.g. if held to quotas don't work over the normal five days, try and achieve it in four or less and reduce the machine/man/travel costs.
- Get workers to use holiday pay entitlements, best to get that four weeks out of the way now rather than have it arise when you are busy again.
- Don't replace workers that leave, unless absolutely necessary.
- Be disciplined and park up gear that is not really required. There is always a temptation to use equipment that is available. Workers can look busy doing nothing (it's much more comfortable in that machine than swinging on a chainsaw).
- Talk to financiers. All the main financiers understand the issues you go through and are, generally, sympathetic to sensible requests for reduced payments, especially if the gear is not being used fully.
- Look at your level of finance repayments. Are you making accelerated payments on gear to build up equity and could you realistically reduce those?

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- Review taxation commitments. Reduced turnover likely means reduced profit/tax, adjust your provisional tax accordingly.
- Likewise if struggling to meet ACC/IRD commitments talk to them upfront about an extended repayment program. Particularly with the IRD, penalties are reduced if arrangements are made before arrears arise.
- Act quickly. Anticipate the current situation dragging on for a number of months. Don't wait until you have run out of cash/options to start considering the above, get in early. By the time it's (really) hitting the fan it is generally too late.

All of the above affect contractors in various ways and with varying degrees of pain. Unfortunately there are no easy answers, all you can do is make plans to try and hold your operation together until the inevitable upturn arrives.

Please call if you require assistance, we can help you in planning and dealing with the above matters.

Risk/Return

Following on from the above are the inevitable questions regarding pricing. How often are you told when pricing a contract to do it based on regular work and volumes i.e. cut the margin to the bone in return for reliability. And now that times are tough you are expected to price sharper again to retain work! While it is easier said than done these type of market events provide excellent arguments for justifying more reasonable pricing by forest owners when times improve.

Historically the argument appears to be that when times are better contractors are "rewarded" by being allowed to produce more. And sometimes that works. But our experience over the last 18 months has been while that sounds fine, ability to do so can be compromised by poor owner planning/infrastructure, trucking availability etc so it becomes an illusory benefit. Contracts with explicit profit margins would be much more realistic.

Subcontractors and OSH

A recent court case provides a useful reminder that the ultimate employer i.e. contractor can also be held accountable for accidents to those subcontractors working on a site under the contractors control. Many contractors have subcontractors e.g. contract fallers or machines working for them. In this particular case the prime contractor had fines and reparations totalling \$34,750, the subcontractor only \$15,000.

"Casual" Employees

It is acceptable that a genuine casual employee i.e. employed on an intermittent or an irregular basis, can have their holiday pay included in the hourly rate. As always this of course should be confirmed in writing. However if an employee has a regular pattern of work, albeit part-time, then they are what is called

permanent part-time, not casual. Accordingly they are entitled to normal holiday payments, even if the 8% had been built into their rate.

Employment Agreements – Deductions

Many employers provide advances to workers either on wages or to assist in purchase of items such as chainsaws, and then make deductions from payroll. Under the Wages Protection Act deductions can only be made if authorised in writing by the employee.

90 Day Trial Period

A valuable tool, but only if used properly. That means it must be in writing and signed off by the employee **before** he commences employment. And a prospective employee is deemed to be an employee as soon as you verbally offer the job. Any such offer should always be conditional on the signing and return of the employment agreement.

On the subject of employment agreements Blackburne Group have a comprehensive industry specific employment package incorporating all of the above and many other industry specific matters. This includes the employment agreement, pre-employment agreements and other background information and is available at a cost of \$400 plus GST.

Payroll Service

Blackburne Group also has a specialist payroll section able to attend to all processing, payment and statutory compliance matters associated with your payroll.

Take the hassle out of your payroll and contact Jacki Hanning on 0508 376 0092, extension 804 for a free quote. Jacki can also provide quotes on attending to creditor and cash flow management on your behalf.

Logging Costing Workshop

The latest half day presentation of this popular course presented by Mark Blackburne on behalf of FICA is in Rangiora on Saturday morning 26th of November.

The course includes a copy of the Business Management for Logging Handbook and costing spreadsheets, and more particularly training on how to use these costing techniques effectively in your business. Contact FICA or our office for further details if interested.

And finally, you must need a joke by now:

What do you call a drunk logger?
A rum-berjack

Safe Logging to you all.

Mark Blackburne & Sonya Elmiger

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