

FORESTRY CORPORATION OF NSW

Submission on the Draft Report of IPART's Review of Local Government Rating System

The draft report issued in August 2016 appears to have taken no account of the matters raised by the Forestry Corporation of NSW in our submission of May 2016 in response to the issues paper. In that submission (copy attached) we highlighted important reasons for maintaining the rating exemption for State forests based on the taxation principles that were said to form the basis of the review as well as practical issues that would arise if the exemption was not maintained.

While the draft recommendation is that State forests be rateable because commercial timber harvesting takes place on them, the draft report makes several observations that point to State forests qualifying for exemption. For example:

- “exemptions should be based on land use and not land ownership... this will help to ensure that land used mainly to deliver private benefits is not exempt from rates”

State forests do not deliver private benefits, they deliver substantial public benefits both to the local communities in which they exist and to the people of NSW generally. Nor are they used primarily for commercial timber harvesting. State forest lands are primarily used for environmental and recreational purposes on an ongoing all-year-round basis. Commercial timber harvesting is an intermittent activity that takes place only on a small area (about 2%) of State forests and in any given area occurs once every several years. Furthermore, the specific areas in which harvesting takes place are scattered across large areas of the State and their locations change every year. Around one million hectares of State forests, approximately half of the land managed by Forestry Corporation, is permanently protected from timber harvesting and will never be commercially harvested.

- “Exemptions for land used for both exempt and non-exempt purposes should cover the portion used for exempt purposes only”

This means that all except the 2% of State forest area harvested each year should be exempt from rates. There are no portions used exclusively for commercial purposes and timber harvesting does not occur in the same places every year, so a harvestable State forest area in a particular LGA may not see any harvesting in more than a decade.

- “Exemptions... could be targeted at land used to generate substantial public benefits...”

All State forests are managed to provide substantial public benefits in the form of fire risk mitigation and firefighting, pests and weeds management, recreational facilities, public roads, protection of flora and fauna and other environmental values to name a few (please see the attached copy of our earlier submission for more detail). State forest management is clearly a land use that should be targeted for exemption.

- “When an activity provides substantial public benefits to the community, it may be equitable and efficient to exempt it from paying rates eg schools and hospitals generate public benefits. Requiring them to pay rates may result in them reducing their services below a socially optimal level”.

Forestry Corporation as the manager of public State forests is not dissimilar to managers of public hospitals and schools in that it provides services that the community needs and delivers both immediate short term (eg firefighting) and long term (eg recreation, weed management) benefits to the local community as well as the State as a whole. Requiring the Corporation to pay rates would result in reduction of services to below socially optimal level.

- “An activity is considered to be a commercial activity if it.... is undertaken on an ongoing basis and is not the provision of a public service”.

The above definitions do not apply to harvesting activities on State forests because they are not undertaken on an ongoing basis and provide an economic benefit to the community. Furthermore, the forests are open to the public on an ongoing basis for a range of non-economic uses. This includes our plantations as well as native forests and is a point of major difference between the Forestry Corporation and private plantation managers who can ‘lock the gate’ and have no responsibility for providing public benefits.

Apart from the public benefits derived from management of State forests, commercial harvesting of timber from public forests also benefits the community in that it facilitates the sustainable management of over two million hectares of public land at no cost to tax payers and pays taxes and dividend to NSW Treasury which in turn funds other public services.

The Corporation’s management of State forests supports and facilitates significant economic activity that directly benefits local communities and local councils. Benefits of employment in timber processing plants and haulage and other services are obvious. But perhaps less obvious is the economic activity resulting from public visitation to State forests. It has been conservatively estimated that approximately 28 million people visit forests every year. Their contributions to local economies could be judged by the following sample of survey data from only 11 of our many free tourist sites.

Visitor survey data including supported annual spend.

Survey Date	State Forest	Visitor Area/s	Est. annual visitn:	Visitors support annual spend in local/regional area of:
2014/15	Orara East	Sealy and Korora Lookouts	134,900	\$12.06 million
2014/15	Burrawan	Old Bottlebutt	8,100	\$328,150
May 2014	Ourimbah	Treetop Adventure Park & Central Coast MTB park	80,000	\$10 million
May 2014	Strickland	Banksia Picnic Area	15,000	\$1.5 million
Mar 2014	Yadboro	Yadboro Camping area	5,000	\$800,000
Apr 2014	Olney & Heaton	Watagans Mountains picnic, camping & lookouts	615,000	\$36 million

Mar 2014	Bodalla	Bodalla Forest Park	8,000	\$1 million
May 2013	Chichester	Telegherry River picnic & camping sites	51,000	\$3.8 million
Mar/Apr 2013	Chichester	Allyn River picnic & camping sites	44,000	\$2.3 million
Jun 2013	Kerewong	Swans Crossing picnic & camping area	17,000	\$700,000
Jun 2012	Coopernook	Coopernook Forest Park (caravan, campervans)	3,800	\$422,000
TOTAL			981 800	68 910 150

A key issue addressed in the draft report and covered in some of the submissions to the review is the equitable sharing of the cost of services and infrastructure provided by local Councils among land holders so that land users who benefit from Council services and infrastructure are not subsidised by other rate payers.

Forestry Corporation does not disagree with this notion but we believe requiring payment of rates on State forests because of the intermittent and sporadic harvesting of timber is not an equitable proposition. In managing State forests, Forestry Corporation does not utilise much of local Council services and infrastructure and local Councils do not spend money on infrastructure and services in State forests. Rather, the roads and other infrastructure provided and maintained by the Corporation complement those provided by local Councils as do our community services such as provision of picnic facilities and rubbish removal.

It has been stated that the rating system review is not aimed at increasing local Council revenues. But submissions proposing that rates should be paid on State forests appear to be viewing it as a way of increasing Council revenues.

It would be a fair question to ask what services and infrastructure benefit should Forestry Corporation expect to receive from the local Councils if it paid rates. One answer might be that local Councils should agree to maintain all public roads, including those in State forests.

If rates are going to be charged on State forest lands, then by the principles adopted in the review, only those areas of forests that are subject to commercial timber harvesting in any given year should be rateable. As the locations of harvest areas change every year, there would be an administrative burden on both the Corporation and the relevant Council to determine the amount payable (and in some cases, the local Council that should receive the payment). It would certainly be a revenue that the Councils could not forecast and rely on continuously.

In light of the above issues and the information provided in the original submission (attached), it is requested that the recommendations in the draft be changed to specifically provide for State forests continuing to remain exempt from rates.

ATTACHMENT

FORESTRY CORPORATION OF NSW

Submission to IPART's Review of Local Government Rating System

Introduction:

Forestry Corporation of NSW is a State Owned Corporation that manages over 2 million hectares of State forests including approximately 250,000 hectares of softwood and hardwood plantations. Around 1 million hectares of State forests are not available for timber harvesting at all and of the remaining area only a little over 2% is subject to harvesting in any given year. This means that the overwhelming majority of the land managed by the Corporation is managed for community benefit rather than commercial operation.

State forests are Crown lands and exempt from local government rates under Section 555 of the Local Government Act. However, over 340,000 hectares of these forests are covered by various leases and permits where the lessees and permit holders pay rate.

The IPART Issues Paper canvasses how exemptions from council rates compare with tax principles and suggests, broadly, that where an exempt land is used for a commercial activity such as timber harvesting by an entity that can afford to pay rates, the exemption should not apply. This submission addresses, in relation to State forests, the question posed by the Issues Paper on whether land uses currently exempt from council rates are appropriate.

Key Points to Consider in Reviewing the Exemption for State Forests

- Similar to national parks, the Corporation's management of State forests provides public good and the exemption prevents extra costs being imposed on the State Government.
- The exemption from rates helps Forestry Corporation to provide substantial benefits to local communities in the form of:
 - Public roads owned and maintained by the Corporation being available at no cost to the public or local councils. If the forests were subject to rates, then the maintenance of local public roads should be transferred to councils to prevent distortion of costs and benefits.
 - Cooperation with local councils on a range of matters such as rubbish removal, weed management and supply of gravel at reduced cost and in some cases free of charge.
 - Cooperative involvement in fire prevention and firefighting that help protect local communities from bushfires.
 - Recreational amenities provided to local communities and visitors free of charge.
 - Facilitation of tourism with consequent economic benefits for local communities.
 - Environmental benefits of forests that accrue at both the local and broader State wide levels.
- A large portion of State forest area is leased by private lessees or occupied under permit for commercial or private purposes like grazing, agistment, tourism, organised recreation activities, etc and these areas are subject to council rates. Forestry Corporation pays normal rates on rented properties and makes ex-gratia payments to councils equivalent to council rates on office and workshop sites it owns.
- Forestry Corporation's road and bridge building and maintenance, fire prevention and firefighting support to local communities and a range of other local services more than offset

alternative revenue from rates. An analysis conducted in the early 2000s concluded that over the whole of NSW, Forestry Corporation's direct financial contribution to local government was considerably more than the amount it would be liable for if it had to pay rates.

- The Corporation's hardwoods business which manages native forests and hardwood plantations is a break even business with significant public good component and no option of converting to a more profitable land use as is available to private sector. Rates would be an impost on the business reducing its ability to maintain a breakeven position.
- The Corporation's softwoods business which manages around 210,000 hectares of softwood plantations also provides significant public good and benefits to local communities as outlined above.
- Preliminary calculations suggest that if the softwood plantations were subject to council rates, the net present value of the State's plantation assets would be reduced by around \$25 million. This would be a direct impact on a community owned asset. A further impact would arise from a reduction in the dividends paid to the State as profitability of the business is reduced.
- Private sector plantation owners do pay rates but they can "lock the gate" and do not incur the costs of providing community benefits outlined above. While calculating and comparing the net impact of this difference between the Corporation and its private sector competitors would be a complex task, it is clear that if the Corporation had to pay council rates as well as the above costs, it would be at a competitive disadvantage.
- The impact of the use of council roads by log trucks has been raised as an issue and an argument for levying rates on Forestry Corporation. However, it should be noted that road funding is primarily provided by State and Federal governments who in turn charge trucking companies through registration fees and diesel fuel excise. Forestry Corporation pays its haulage contractors to cover their registration and diesel fuel excise costs and therefore, already pays for road usage. And of course, thousands of kilometres of roads are maintained at the Corporation's exclusive expense that are used by local communities and complement council road networks.

It should also be considered that forestry operations provide a basis for economic activity. Large forest areas provide raw material for the forest products industry and allied support industries providing employment for local rural populations and thus a rates base for rural councils.

Among the options canvassed in the Issues Paper is the option of councils being given the authority to make decisions on exemptions. This could lead to an inequitable situations where one council grants exemptions to a particular land use but the neighbouring council does not. This will also add administrative burden on both councils and any operator who operates in more than one council area. Competitors across the council boundaries would also lose competitive neutrality. Forestry Corporation strongly urges that this option not be considered.