

## Submission to Review of Local Government Rating System

Peter Mitchell 2<sup>nd</sup> May, 2016

It is noted that on p30 under "Equity"

"In addition, rate exemptions for commercial activities, such as the logging of state forests, mining or oyster cultivation, may not be equitable. The enterprises that undertake these activities generally have the ability to pay rates. Therefore, it may be more equitable to require them to make some contribution to local rates, especially where the activities are pursued for private profit."

I feel it is appropriate for logging of State Forests to maintain a rate exemption based on the criteria of both benefit and capacity to pay:-

### ***Benefit principle:***

#### ***1. Do exempt institutions benefit from services provided by the local government?***

State Forests do not benefit from virtually any of the services rate payers would normally expect from local government such as garbage, water, sewerage etc. It is sometimes argued that while timber haulage can occur on Shire roads, and this increases maintenance costs, in most Shires the timber industry funds an extensive road network accessible to all ratepayers.

In the Bega Valley Shire, not only are minor gravel roads constructed and maintained by the Forestry Corporation of NSW (FCNSW), but also Edrom and Imlay Roads, which are major bitumen arterial roads, which also provide important access to port and National Park resources.

#### ***2. Do the activities of exempt institutions create additional costs for local government?***

No, as local government does not provide any goods and services.

#### ***3. To what extent do exempt institutions generate benefits for the community?***

Apart from the access provided by the State Forests road network, FCNSW significantly reduces overall fire risk in any given Shire through fuel reduction burning, and provides emergency response to wildfires. In addition the spread of weeds and feral animals to private land and National Parks, is minimised through active control measures.

#### ***4. Overall, can it be considered that the community benefits outweigh the cost to society of allowing exemptions?***

I am not in a position to analyse whether the cost of the Community service Obligations provided by FCNSW outweigh the foregone rate revenue.

#### ***5. Are these net community benefits mainly concentrated within the local government jurisdiction, or are they spread more widely across broader society?***

As the broader community has access to State Forests and benefits from the associated active management, it is reasonable to conclude that there is widespread benefit.

### ***Capacity to pay:***

#### ***1. Do exempt institutions have the capacity to make financial contributions towards local government services which they receive, in the form of rates?***

Analysis of the financial performance of FCNSW, reveals that in the 6 years between FY09 and FY14 (the only period for which segment reporting exists), the Hardwood Forests Division

(native forestry) lost an average of \$11m per annum in operating profit. In those Shires that are dominated by native State Forest rather than plantation resource, such as Bega Valley Shire, there is limited capacity to make a financial contribution.

As a state owned corporation FCNSW does, indeed pursue a profitable outcome, but this is a “public” rather than a “private” profit.

***2. To what extent does this capacity to pay restrict their ability to provide broader community services?***

The imposition of rates on FCNSW would result in a transfer of cost from local to State government. It is reasonable to expect the following outcomes:-

- a) The profitability of FCNSW is reduced which could result in budget cuts in the areas of Community Service Obligations, or
- b) FCNSW increases charges to those industries that are customers of FCNSW. This may compromise the viability of these regional businesses and severely impact the broader community.

National Parks also generate some revenue through entrance fees etc, and similarly it would be reasonable to expect that the services they can offer to the broader community would be curtailed should rates be imposed.

In conclusion given that FCNSW is not a material beneficiary of Council services, and has limited capacity to pay, especially in regions dominated by native forest, it would not be equitable to remove a rate exemption.