

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.