



OUT16/19323

ipart@ipart.nsw.gov.au

Dear Sir/Madam

Issues Paper – Review of Local Government Rating System

Please find attached the NSW Department of Primary Industries submission on the above mentioned Issues Paper for your consideration.

For further information please contact Vanessa Hornsby, Policy Officer (Planning Policy) on (02) 9934 0804 or via email at [REDACTED]

Yours sincerely



Mitchell Isaacs
Director, Planning Policy & Assessment Advice
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NSW DPI Submission

IPART Review of the Local Government Rating System - Issues Paper

Rate exemptions for oyster cultivation

Introduction

As of April 2016 there are 300 oyster aquaculture permit holders who hold 2253 oyster aquaculture leases occupying 2813 hectares in 33 NSW estuaries. These leases span 17 local government areas. Four local government areas hold 62% of this lease area, Port Stephens, Great Lakes, Bega Valley and Eurobodalla.

Oyster aquaculture businesses incur a range of government fees and charges including local government rates. Oyster aquaculture leases incur rent under the *Fisheries Management Act 1994*. A permit under the Act is also required to cultivate oysters and annual permit contributions are charged. Oyster businesses must have a seafood licence under the Food Act and pay state and local levies to the NSW Shellfish Program. In addition the industry pays local council rates on their land bases.

Oyster aquaculture leases are currently exempt from Local Government rates under s.555(1)(h) of the *Local Government Act, 1993*. IPART suggest in the issues paper that oyster businesses have the capacity to pay rates and it would be equitable to remove the current exemption.

There are a number of issues related to rating oyster aquaculture leases that are relevant to the review. DPI has organised these comments under the Principles of Taxation headings used by IPART in the issues paper at Section 5.1.1.

Equity and Efficiency

NSW oyster farmers already pay local government rates on the land bases that support their on-water aquaculture operations. This rating is well accepted because it is where the industry makes most use of local government services. The oyster industry currently pays the direct costs of water and sewerage services, if available, through these rates and pays their own costs for waste management as commercial operators.

The oyster industry's demand on council services is related to the land base depot rather than the oyster aquaculture leases. Removing the current rate exemption on the oyster aquaculture leases will not broaden the tax base, but it may result in an inequitable increase in the tax burden on the oyster industry.

The water areas occupied by the NSW oyster industry are categorised as Priority Oyster Aquaculture Areas (POAA) under the provisions of the NSW Oyster Industry Sustainable Aquaculture Strategy (2014) and *State Environmental Planning Policy 62 – Sustainable Aquaculture*. POAA are areas where oyster aquaculture is the priority intended outcome and therefore the current rate exemption is unlikely to be changing the use of the leased areas from what otherwise would have occurred.

As filter feeders, oysters are vulnerable to the water quality of the estuary in which they are grown. The oyster industry is adversely impacted by poor water quality related to the service functions of councils in many estuaries. Sanitary water quality impacts on product harvest and is associated with stormwater and sewerage management, particularly on-site sewerage management. Water quality also affects growth rates and product quality. Stormwater management, development control and unsealed road management are areas of council responsibility that contribute to water quality issues, particularly suspended solids and acid sulphate discharges.

If the rate exemption for oyster aquaculture leases is lifted then it is likely that the oyster industry will seek to hold councils more responsible for the water quality issues that affect oyster growth and cause harvest closures under the NSW Shellfish Program.

Simplicity

DPI anticipates that the cost of valuing oyster aquaculture leases and the transaction costs for DPI to ensure that local councils have accurate ownership information would be high. These costs are likely to be a significant percentage of the expected rate revenue which should be considered by IPART if considering the proposal as a revenue raising measure. On top of this, the revenue raised would predominantly benefit just four council areas.

Valuing oyster aquaculture leases for the purpose of *ad valorem* rating is potentially complex as lease areas have highly variable productive capacity. NSW DPI has limited information on oyster lease sale prices from oyster lease transfers and the biannual oyster lease tender. However, neither of these data sets includes information on the factors that affect productive capacity. Similarly DPI does not have information on the factors that affect productive capacity for the oyster aquaculture lease estate. Therefore, it will be impossible to infer an accurate value for each lease in the state from the tender and transfer data.

DPI collects annual production data, but this data is not disaggregated to the lease level, so it also is of little use in valuing individual leases.

Some of the most important factors affecting the value of a lease area include:

- The various production stages (catching, grow-out or finishing).
- Infrastructure types of varying economic efficiency.
- Proximity to the farmer's land base.
- Sanitary water quality at the site and its classification under the NSW Shellfish Program.
- Primary productivity at the site. This is affected by pest and disease status and risk, food availability, susceptibility to flood, freshwater and storm events.
- Species suitability. The species that are suitable for a particular lease can change rapidly with the advent of pest and disease issues, with the development of genetically improved stock (disease resistant) or new markets.

Rating oyster aquaculture leases would add to the cost of any lease transaction that involved a change in ownership. For the period January 2013 to December 2015 there were 928 such transactions including 454 transfers and transmissions, 411 terminations and 63 new leases. Removal of the oyster aquaculture lease rate exemption would require DPI to establish additional administrative processes and systems.

Competitive neutrality

The current exemption is competitively neutral. All oyster aquaculture businesses are treated equally by the current local government rating system. The industry's land bases that support the on-water operations are rated, and the water based aquaculture leases are exempt. The current system meets the test of competitive neutrality.

Forestry land

DPI considers that the option put forward in the Issues Paper to give councils the authority to make decisions on exemptions may lead to inequities. The economic importance of forestry within regional areas varies across the State, ranging from 'insignificant' in some localities to 'primary employer' in centres such as Oberon, and the treatment of forestry by the relevant councils is likely to differ accordingly. This may create administrative burdens for individuals operating across council areas and provide competitive advantages for those who receive exemptions from one council where their competitors in adjoining councils do not.

Whilst council revenues may be affected by the rate exemption which applies to unoccupied public land it can be argued that councils receive similar exemptions from other tiers of government (e.g. exemption from payroll tax) and may benefit through various agreements with public authorities to provide assistance in maintaining roads, etc.

Agriculture

There are no major issues for farmland rating. However the potential to use a different rating system where capital improvements on farmland are considered may result in higher rates.

DPI suggests that there may be difficulties in the sub categorisation of farmland based on intensity of use, irrigated land, or economic factors affecting the land. These factors can vary from property to property and from season to season. It may be labour intensive and costly for councils to assess these variations and ensure the process was equitable.

Crown lands

DPI supports maintaining the rating exemption for Crown land (this exemption applies except where the land is the subject of a lease). DPI supports councils being able to apply for variations during a rate freeze period in the circumstance where former Crown Land has been added to their rating base during the freeze period. We believe that this is appropriate as there may be a higher demand for council's services and an increase in its costs. This will support councils in the context of DPI's current land divestment program which is concerned with transferring Crown land of local significance to councils as part of a voluntary and staged process.

End Attachment A