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Revd the Hon Fred Nile MLC, Chairman
Cross City Tunnel Parliamentary Inquiry
Parliament of New South Wales
Macquarie Street
SYDNEY NSW 2000

Contact: Dr K Schott
Telephone: (02) 9228 4021
Our Reference: 105/00573

LEGISLATIVE COUNCIL
COMMITTEES

09 DEC 2005

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Dear Chairman

Cross City Tunnel Parliamentary Inquiry

I refer to the hearing of 7 December 2005, at which NSW Treasury appeared before the Joint Select Committee of the Cross City Tunnel inquiry.

At the hearing, it was agreed for some of the questions that further details were to be supplied. This letter is to cover those questions / issues raised by members of the Committee.

1. *Did the State Government increase the amount of stamp duty payable on borrowings after the cross city tunnel contract had been signed?*

The contract for the Cross City Tunnel was signed in December 2002. Amendments to section 226 of the Duties Act were announced as part of the 2003-04 Budget that legislation would be introduced applying mortgage duty to all funds drawn down from budget day.

The Roads and Traffic Authority executed contracts for the Cross City Tunnel in December 2002 and for the Westlink M7 project in February 2003. They would have executed a mortgage with their financiers to secure the debt facility to construct the motorways.

The Cross City Motorway consortium (CCM) and WestLink Motorway consortium advised RTA that they had been affected by the amendments to section 226.

Subsequently, the Treasurer received submissions from CCM and WestLink proposing that they be reimbursed from liability to pay additional loan security duty which was payable as a result of changes to the Stamp Duties Act.

The Treasurer accepted that each consortium calculated and budgeted for loan security duty based on the terms of the Stamp Duties Act prior to its amendment and that

neither the consortia nor the Roads and Traffic Authority saw any need to address this particular risk in the contracts.

If the consortia had known about the proposed change to the Act, they would have restructured their affairs or would have budgeted for the additional duty in which case any payments to RTA in respect of each project would have been reduced by the amount of the additional duty payable.

The Treasurer considered that there were reasonable policy grounds for accepting the submissions from Cross City Motorway and WestLink.

CCM and Westlink were not excused from the payment of the additional loan security duty, which in the case of CCM was \$2.5 million, and for Westlink \$6 million. However, the Treasurer approved in December 2003 for the RTA to reimburse CCM and WestLink for costs associated with the additional loan security duty paid by them.

2. *Are you aware that the Treasurer did meet with the consortium in relation to stamp duty relief?*

A meeting took place on 14 November 2003 between the Treasurer, Treasury (Dr K. Schott), and representatives from the Cross City Tunnel and Westlink M7 consortium attended. This meeting formally heard the case put by the companies.

3. *Considering that the \$860 million figure has been given as the price, can you take it on notice and give us a breakdown on how it is arrived at?*

The Cross City Tunnel project has been estimated to cost \$860 million. This consisted of the following:

Construction Cost	\$530
Financing costs during construction	\$160
<u>Development costs (including RTA costs)</u>	<u>\$174</u>
Total Funding required	\$864

It should be noted that the above estimates are from the preferred proponents bid and are subject to change due to interest rate movements and final negotiations with RTA.

4. *It was implied that the stamp duty or tax levied on the Cross City Tunnel Consortium was not high enough. Would that not have led to people paying an increased toll?*

Generally, the ability of a proponent to take revenue risk and its estimation of revenue projection to cover its costs over the project determines the ability to offer an upfront payment to RTA. In the event that a proponent assesses that traffic forecasts and

revenue projections do not accommodate the ability to offer an upfront payment, or recover costs then the alternative is to request a contribution from government or increase the toll levels.

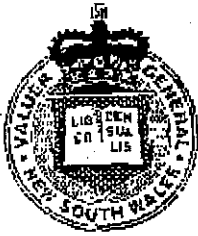
As requested I also attach a copy of the Public Sector Comparator (CD), and letters from the Valuer General and Office of State Revenue concerning the land tax liability associated with the project.

Yours faithfully



Dr Kerry Schott
Executive Director
Private Projects and Asset Management Directorate

9.12.05

**Office of the Valuer-General**

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Mr Simon Palagyi
Private Projects Branch
NSW Treasury
Level 26, Governor Macquarie Tower
1 Farrer Place
SYDNEY NSW 2000

Dear Mr Palagyi,


Estimate of Land Value for Leased lands, Cross City Tunnel Project

I refer to your request for an estimate to be provided of the land value for land tax purposes of surface lands in the Sydney and South Sydney Council areas that are proposed to be leased to a Consortium for the Cross City Tunnel Project.

I have estimated a land value of One Million Two Hundred Thousand Dollars (\$1,200,000) as at the present date for the aggregate of the lands shown on the plans that you provided to me. This estimate does not include any amount for the sub surface lands (stratum) that will be the site of the actual tunnel, or ancillary to the tunnel construction. In the event that such lands or strata are leased to the consortium on terms that include liability for the payment of rates and taxes, and subsequent to construction of the tunnel being completed, I estimate that the total land value would be in the order of Seven Million Dollars (\$7,000,000).

These estimates are made on the assumption of present value (ie at the Base Date of 1 July 2001) and that there will not be any potential for commercial development of any parts of the lands or strata, apart from for the purposes of constructing, managing and maintaining the road tunnel development.

Yours sincerely


PC Cunningham
Valuer-General



Office of
State
Revenue

NSW Treasury

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Mr Russell Agnew
Manager
Tax Policy and Revenue Forecasting
NSW Treasury
1 Farrer Place
SYDNEY NSW 2000

LAND TAX LIABILITY CROSS CITY TUNNEL PROJECT

I understand that the Valuer-General has provided estimates of the land value for land tax purposes of Crown land that will be leased to a consortium for the Cross City Tunnel Project.

The Valuer-General's estimates are contained in the attached letter dated 16 May 2001, and specify \$2,250,000 as the value as at 1 July 2000, based on current position, but excluding any amount for the sub-surface lands (stratum). The Valuer-General has estimated the value at \$8,000,000 as at 1 July 2000 assuming the sub-surface lands were included and the tunnel were completed.

If the land were subject to land tax for the 2001 tax year, and assuming the lessee did not own other land, the 2001 land tax liability would be:

- If the land were valued at \$2,250,000:
 - \$34,865 in land tax if the lessee were entitled to the threshold deduction of \$205,000;
 - \$38,250 in land tax if the lessee were a non-concessional company or a special trust.
- If the land were valued at \$8,000,000:
 - \$132,615 in land tax if the lessee were entitled to the benefit of the threshold deduction of \$205,000; or
 - \$136,000 in land if the lessee were a non-concessional company or a special trust.

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In estimating the future liability for land tax, potential lessees should be aware that:

- The threshold deduction is subject to indexation each year under Division 4A of part 7 of the Land Tax Management Act 1956, based on average changes in the value of land within residential, commercial, business and industrial zones in New South Wales.
- The tax rate applied in assessing land tax is specified in the Land Tax Act 1956, and may be amended from time to time.
- The land value in respect of which land tax is assessed each year is determined by the Valuer-General, under the Valuation of Land Act 1916, as at 1 July immediately preceding each tax year.



Ian Phillips
For R G Smith
Commissioner of State Revenue
6 June 2001