

Friday, 14 October 2016

Dr Peter J Boxall AO
Chairman
Independent Pricing and Regulatory Tribunal
PO Box K35
Haymarket Post Shop
NSW 1240

Electronically lodged via IPART Website: www.ipart.nsw.gov.au

Dear Dr Boxall

Pacific National Submission to the IPART Draft Report on the Review of the Local Government Rating System

Introduction

Pacific National welcomes the opportunity to make a submission to the IPART 2016 Draft Report on the Review of the Local Government Rating System (the Draft Report). Pacific National has strong concerns regarding the Draft Report's proposal that freight rail lines should become rateable land.

Pacific National is a major freight rail operator in New South Wales.

Pacific National Comment on the Draft Report

Pacific National notes that the Draft Report recommends that land used for either residential purposes or commercial activities should be rateable land. The Draft Report (page 80) then notes that as a consequence of this recommendation that freight rail lines will become rateable land.

Pacific National has several major concerns with freight rail lines becoming rateable land in NSW.

The first major concern is the potential for the Draft Report recommendations to result in the differential treatment of road freight and rail freight. Road freight and rail freight compete in many freight markets, and Pacific National strongly believes that government taxation regimes should treat road freight and rail freight in an equivalent manner in order to promote competitive neutrality and avoid the inefficient economic outcomes which will arise if differential taxation regimes are applied to competing freight industry sectors. This principle is supported by the Draft Report (page 66) which argues that granting exemptions for land used for commercial activities (such as freight roads) is contrary to the principle of competitive neutrality.

Pacific National understands from discussions with IPART officers that public roads will not be treated as rateable land even if they are substantially designed and used for commercial activities. Furthermore Pacific National understands that the position that roads should be exempt from rates is due to issues related to land ownership rather than land use. This position seems to be directly counter to the principle of competitive neutrality and the stated IPART recommendation (Draft Report page 6) that:

Eligibility should be based on the use of the land, regardless of who owns it, to ensure comparable land uses attract the same rating treatment. This would improve the efficiency of the rating system....

Sydney

Level 18, 15 Blue Street
North Sydney NSW 2060
Telephone: +61 2 8484 8000

Melbourne

Level 4, 476 St Kilda Road
Melbourne VIC 3004
Telephone: +61 3 9248 7000

www.pacificnational.com.au

Pacific National Pty Ltd
ACN 098 060 550

Pacific National believes that if a road has been engineered to allow the transport of road freight (for example the roads are engineered to allow vehicles of more than 4.5 tonnes) then the road has been constructed in order to facilitate a commercial activity (being the transport of freight by road) and to ensure competitive neutrality this road should be rateable land. If, as per the Draft Report Table 6.2, this road is engineered to allow vehicles of more than 4.5 tonnes but is deemed not to be rateable as the commercial usage is incidental to the core purpose of the road then Pacific National would query why the road has been designed to this engineering standard as this strongly implies capital over-investment in road infrastructure to meet a purpose which is not the core purpose of the road. Such capital over-investment is allocatively inefficient if the road is not intended or used for commercial purposes.

Overall Pacific National is seeking that the Final Report explicitly state how road freight will be treated. Furthermore, if the Final Report intends to differentiate between road freight and rail freight on the basis of land ownership then this should be explicitly stated in the Final Report. Pacific National strongly believes that in order to ensure efficiency and competitive neutrality road freight and rail freight must be treated in an equivalent manner. If roads used for freight transport in New South Wales are not intended to be subject to local government rates then Pacific National is strongly of the view that freight rail lines should not be treated as rateable land in order to preserve principles of competitive neutrality.

A second major concern is that Pacific National believes that linear infrastructure (such as rail lines, arterial roads, electricity lines etc.) facilitate broader commercial activity. Councils in turn benefit from the rates generated by these commercial activities. Introducing rates on linear infrastructure such as freight rail reduces commercial activity thus reducing the rates generated by these commercial activities.

A third major concern of Pacific National is that in the event freight rail lines become rateable land the freight rail industry will not be receiving council services even though they are paying rates. For example the freight rail industry will not be using services such as garbage collection and local road maintenance. The Draft Report (for example page 66) argues that commercial activities impose costs on councils and so these activities should be subject to rates, however this argument does not apply in the instance of freight rail.

A fourth major concern is that the imposition of local government rates on marginal freight lines may impact on the ability of these lines to remain in operation. The IPART 2012 Review of Access Pricing on the NSW Grain Lines identified the marginal nature of many of these lines. The imposition of new local government charges on these freight rail lines could be expected to impact on these lines.

More broadly Pacific National notes that New South Wales transport and industry policies generally seek to encourage freight on rail¹. The differential policy treatment of road freight and rail freight which favours road freight acts against this policy position and raises concerns regarding the policy commitment to rail freight.

In addition Pacific National notes that freight rail lines are exempt from rates in other states. Differential tax treatment of freight rail lines between states may have the potential to shift some activities to states where freight rail lines are not rated.

Overview

Pacific National has several major concerns with freight rail lines becoming rateable land in NSW. The primary concern is the potential for the proposal to result in the differential taxation treatment of road freight and rail freight which would result in inefficient economic outcomes and act contrary to the principle of competitive neutrality. Pacific National strongly believes that if roads used for freight transport in New South Wales are not intended to be subject to local government rates then freight rail lines should not be treated as rateable land in order to preserve the principle of competitive neutrality.

¹ For example the NSW Freight and Ports Strategy November 2013 page 19, p25, support an increase the number of container movements to and from Port Botany by rail.

Feel free to contact me on [REDACTED] to discuss this submission.

Yours Faithfully

[REDACTED]

Stuart Ronan
Manager Access and Regulation
Pacific National

