

Using Value Capture to Help Deliver Major Land Transport Infrastructure Roles for the Australian Government

**RAC Response to 'The Value Capture Discussion Paper'
February 2017**



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Using Value Capture to Help Deliver Major Land Transport Infrastructure Roles for the Australian Government

RAC welcomes the opportunity to respond to the Australian Government's discussion paper entitled, *Using Value Capture to Help Deliver Major Land Transport Infrastructure – Roles for the Australian Government* (the Value Capture Discussion Paper, or the Paper).

Introduction

RAC represents the interests of more than 900,000 Western Australians and is the leading advocate on the mobility issues and challenges facing Western Australia (WA). RAC works collaboratively with all levels of Government to ensure Western Australians have access to safe, easier and more sustainable mobility options.

RAC aligns its activities with the following three themes:

- » **Safe** – We want to reduce the number of road deaths and serious injuries.
- » **Accessible** – We want to reduce the cost of congestion and keep the cost of transport down.
- » **Sustainable** – We want to reduce the impact of CO₂ emissions from private cars.

Our economy and the quality of life Western Australians enjoy are inextricably linked to the performance of our transport system. In 2011, the cost of road congestion in Greater Perth was estimated to be almost \$1.8 billion. It has been forecast that this will rise to almost \$16 billion by 2031, and seven out of the 10 most congested roads in Australia (including the top four) will be in WA.

Investment in safer and more efficient roads is critical in responding to this challenge, as is the funding of major projects to deliver a comprehensive and reliable public transport network. Additionally, there is a clear need to ensure better integration of transport and land use, and seek to achieve more successful outcomes from development. This will help to maximise the value from investment in essential transport infrastructure, benefiting the community, Government and industry alike.

A range of funding and financing options need to be explored to help facilitate the provision of essential transport infrastructure (and services) and ensure equity and efficiency in the funding mix.

With this in mind, RAC welcomes the release of the Value Capture Discussion Paper to progress discussions and explore the opportunities and challenges at a national level. RAC also acknowledges and supports the consideration of the Australian Government's role in encouraging and enabling greater, and more consistent application, of value capture mechanisms in the development and delivery of urban transport infrastructure.

RAC provides in-principle support of the concept of capturing a share of value (or financial gains) received by private landowners and developers, etc. resulting from Government planning decisions and provision of publicly-funded transport infrastructure to offset some of the cost of providing that infrastructure. However, value capture is a complex issue and the selection and design of any mechanisms applied (including the application approach and proposed use of revenue generated, etc.) needs careful consideration to ensure it is an appropriate, equitable and efficient means of supplementing other funding sources.

In regards to direct user charges for instance, RAC believes cordon charges and/or toll roads should only be considered as part of a broader reform of taxation on motorists and should not be imposed on top of the existing fuel excise charges as an additional tax. As with levies, such as the Perth Parking Levy, RAC considers the hypothecation of revenue collected to fund transport infrastructure to be a key requirement.



An RAC commissioned report on Motorist Taxation Revenue and Road Spending, prepared by Acil Allen Consulting, found that for every dollar the Australian Government collected in taxes from WA motorists in 2015-16, only 48 cents was returned for investment in WA roads. Reports commissioned in the two preceding years revealed the amount returned was as low as 34 cents in 2014-15, and in 2013-14 it was 41 cents.

This submission is however primarily concerned with the concept of land value capture, as part of the planning process, as opposed to broader mechanisms.

Development Contributions and Transport - A review of arrangements in WA

It is considered that more importance could be placed on ensuring access to a range of transport options in supporting improved liveability, mobility and lifestyle choices within the Western Australian Planning Commission's (WAPC's) *'State Planning Policy 3.6 - Development Contributions for Infrastructure'* (SPP 3.6). It is considered that this could enhance the alignment between SPP 3.6 and State planning and transport policy objectives, and its effectiveness as an instrument to support the delivery of essential transport infrastructure.

Availability of high frequency and permanent public transport services has been demonstrated to have a direct impact on land and property values.

Research has shown that the average value uplift of commercial and residential properties from light rail is 9.5 per cent, from Bus Rapid Transit its 9.7 per cent, and from heavy rail its 6.9 per cent (although there is considerable variation in the ranges observed for each transit mode)¹.

There is therefore considered to be a rationale for not only securing contributions in association with land development to support the provision of improved transport options, but also for capturing a proportion of the value created to help fund the infrastructure.

In 2014, RAC sought independent expert advice on arrangements in WA for securing Development Contributions towards transport. The purpose of the study was to evaluate WA's framework, focusing on the extent to which it, and communication of the policy and protocols, supports (at a local level) the delivery of local and regional transport-related infrastructure, services and initiatives.

The study involved:

- > a baseline review of the WA framework and practices in other jurisdictions, both nationally and internationally;
- > extensive consultation with a broad range of stakeholders, including relevant State Government departments, local governments and other industry stakeholders;
- > identification of gaps in the current framework and opportunities for improvement (considering enhancements to the existing framework and alternative approaches); and
- > investigation and evaluation of opportunities.

The gaps in, or limitations with, the existing Development Contributions framework, as presented to RAC were:

- > the relative absence of the application of development contribution requirements for urban infill development;
- > the existing development contributions framework does not enable the collection of funds for the provision of public transport infrastructure or services;
- > the complexity of the existing framework is an issue for local governments and the development industry;
- > mismatches in timing between the payment of development contributions and the provision of infrastructure; and
- > limitations caused by the focus on the recovery of infrastructure costs rather than the capturing of value from benefits.

Opportunities identified in the consultant's report included both a number of 'quick-wins' to improve the application of the existing framework and more significant changes such as:

- > an infill development charge;
- > a public transport levy administered and pooled by the State Government;
- > standardisation of charges;
- > facilitation of local government borrowing via a local government financing authority; and
- > a value capture approach relating to uplift in land values resulting from planning decisions.

An overview of two of these opportunities is provided below, with further information in RAC's response to the WAPC's revised SPP 3.6, submitted in November 2016, and the independent consultant's report (prepared by Acil Allen Consulting)², provided in support of this response.

Potential public transport tariff

RAC considers there to be merit in exploring the opportunity to secure contributions from development activity through a tariff based approach, administered at a State level to allow pooling of contributions towards more strategic public transport infrastructure and services. Value capture principles could be applied for such a levy.

There would of course be a number of implementation considerations for such a levy, including potential impacts on housing affordability, demonstrating the 'Need and Nexus', gaining acceptance, and ensuring funds are appropriately spent. Ensuring changes are fair and equitable for the development industry, and demonstrating the benefits, would be critical in gaining acceptance.

¹BITRE, 2015. Transport infrastructure and land value uplift.

²Acil Allen, 2014. Development Contributions for Transport: Review of Arrangements in Western Australia.

Consideration of an alternative value capture approach

The WA Development Contributions framework focuses on cost recovery, levying contributions that are proportional to the costs of providing the infrastructure required to enable development to proceed. As such, it is not considered effective to allow financial gains from planning decisions and infrastructure investment to be transferred back to the community. An example of this could be increases in land value generated through re-zoning to allow particular land uses or increases in density, or the commitment to provide major transport infrastructure.

The independent advice to RAC considered value capture as an alternative approach, levying contributions to capture high-value private windfall gains generated through increased land values resulting from rezoning decisions which enable development. Currently in WA, any gains in land value that are the result of these Government decisions accrue solely to the landowner and no benefits are transferred to the community. In this way, landowners earn economic rents from increases in value through no specific action on their behalf and the distribution of a proportion of these economic rents back to the community could therefore be an economically efficient way to approach taxation of the development industry.

The consultant's report discusses a number of implementation considerations, including the point of application (with the point at which land is rezoned being preferred), calculating valuable capture liability, application to development and allocation of revenue. It also discusses potential barriers to the implementation of this approach which represents a significant policy shift and provides suggested actions to help overcome or mitigate these, including modelling scenarios as to what the expected outcomes would be for Government, industry and the community. Many of these issues will also be considerations for other value capture approaches.

Roles for the Australian Government

The Paper provides a good overview of value capture funding mechanisms and financing tools, highlighting key challenges and opportunities, as well as potential actions for the Australian Government to stimulate the use of these for the development and delivery of transport infrastructure.

RAC sees that encouraging the use of value capture mechanisms in WA, through guidance from the Australian Government, would help to complement and enhance existing funding mechanisms and better utilise the WA planning system to deliver transport infrastructure projects in a fair, transparent and equitable way.

The selection and design of appropriate value capture mechanisms for different projects will be critical to their success, as will demonstrating the clear linkages between the payments being made and the benefits to be received. As the Paper rightly states, early engagement of beneficiaries in the planning and concept design stages of a project will be of fundamental importance.

RAC is supportive of a number of the potential options discussed in the Paper in relation to the Australian Government's role, including:

- » **Building the evidence base to demonstrate the benefits of value capture** – RAC is supportive of potential action by the Australian Government to i) build a body of case studies and ii) establish a database of expected benefits and methodologies that could be used to estimate the benefits. Such an evidence base will be crucial in encouraging endorsement and support for the use of value capture mechanisms, as well as improving application, through:
 - > enhancing understanding of the mechanisms, their potential application and benefits to be derived;
 - > improving the robustness of value capture liability calculations; and
 - > demonstrating how the ultimate benefits to the development industry and private land owners will outweigh the initial contributions to a project.
- » **Developing a consistent approach for value capture across Australia** – RAC would be supportive of the development of a national methodology and guidelines for value capture. RAC considers an important role for the Australian Government would be to provide the strategic framework to guide the development and application of value capture mechanisms to support transport infrastructure delivery in Australia. This should be developed in consultation with the states and territories that, along with local governments, will have a key role in implementing and enforcing value capture in their jurisdictions.

» **Specific funding program for projects with a value capture element** – RAC’s response to the WA Government’s Transport Plan (‘Transport @ 3.5 million – Perth Transport Plan’) in October 2016 highlighted the need to identify projects which could attract Federal funding, and also those that could lend themselves to value capture or other innovative funding or financing approaches in the future. The establishment of a dedicated funding program could be effective in further incentivising state and territory governments to bring projects forward with value capture elements. Any specific assessment criteria attached to such a program, in addition to the requirement of the Australian Government’s and Infrastructure Australia’s project assessment framework, should be developed in consultation with potential project proponents. However, it is impossible for value capture to be applied to each and every project and this should not disadvantage important projects, such as those that address social exclusion or inequity, from receiving funding. For example, some outer or regional areas may not attract higher density development. An alternative approach would be to incentivise jurisdictions to incorporate value capture in their projects, possibly by increasing the percentage of funding they may attract. To help facilitate the development of best practice in value capture across Australia, reporting requirements could be set by the Australian Government for projects receiving Federal funding that have a value capture element (i.e. those receiving funding through this program).

» **Establishment of an infrastructure investment market** – RAC is supportive in-principle of the Australian and WA State governments seeking to encourage market-led proposals, where they would be in the public interest and support the achievement of strategic planning objectives for WA.

Summary

There has been much discussion around the use of value capture in Australia over recent years and no doubt value capture mechanisms will become an increasingly important part of the funding mix for major transport projects in the future. This Paper is very timely, and we thank the Australian Government for the opportunity to contribute to the national discussion on this important infrastructure funding issue.

We trust RAC’s response and supporting documents are of use to the Australian Government in progressing actions identified in the Paper.





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