PROPERTY COUNCIL of Australia

PROSPERITY | JOBS | STRONG COMMUNITIES

Submission on the Draft State Infrastructure Plan

4 December 2015

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1. Executive summary

The Property Council would like to thank the Government for the opportunity to provide feedback on the *Draft State Infrastructure Plan* (draft SIP).

This submission provides further information and proposals to support the earlier feedback provided by the Property Council on the *Delivering an Infrastructure Plan for Queensland Directions Paper* (directions paper).

After long advocating for the introduction of a transparent and accountable system for assessing, prioritising and delivering critical infrastructure in Queensland, the Property Council welcomes the release of the draft SIP as a step in the right direction.

It is clear that the Government has taken feedback from the *directions paper* into consideration, in addition to reviewing the practices of other jurisdictions and how they might apply in a Queensland context.

A significant failing of the draft SIP, however, is that it does not integrate with established strategic priorities, such as those determined through Queensland's existing land-use planning framework.

The following submission focuses on the need for the SIP to provide better alignment between land-use planning and infrastructure planning. A new framework has been proposed that incorporates all three levels government, and is focused on prioritising infrastructure that has been identified through a strategic planning process.

The framework outlined in Figure 1 (page 8), involves a reallocation of a portion of existing infrastructure funds into a central pool, with the aim of facilitating the delivery of infrastructure that aligns with regional plans and regional economic growth targets. Through utilising a 'City Deals' approach to governance, a formalised structure can be established to ensure funds are directed towards regional priorities.

Through better utilisation of existing funding sources, such as grant funds and the direct investment of governments and the private sector, Queensland will be better placed to deliver the infrastructure that our growing state needs.

The Property Council is also encouraged by many of the implementation initiatives mooted in the draft SIP for offsetting infrastructure costs. However, given the level of taxation already imposed on the property industry, we do not support any funding or financing options that would mandate new or increased taxes on the property industry.

In order to move Queensland forward, it is critical that our state has an infrastructure plan that business and the community can rely on to make informed investment and purchasing decisions.

2. Property industry's contribution to the Queensland economy

3. A new framework for infrastructure investment

Overview

A significant failing of the draft SIP is that it does not integrate with Queensland's existing land-use planning framework.

To ensure that maximum economic, social and environmental benefits flow from infrastructure investment, the SIP must have a clear and direct linkage with regional plans and local government planning schemes.

There is a significant opportunity to improve the SIP's integration into the broader land-use planning framework, particularly in the 5-15 year time horizon.

The Property Council has developed a new framework for planning, coordinating, funding and delivering infrastructure to achieve this (see Figure 1).

At its core, the framework proposes a complete rethink of how infrastructure funding and planning occurs in the state.

In essence, it acknowledges that the funding paradigm of the past is failing Queensland, and that changing funding and governance structures is vital if we are to achieve a more strategic and robust approach to infrastructure investment.

3.1 The problems with the current infrastructure funding and planning paradigm

In 2014, the Productivity Commission published the report of its inquiry into public infrastructure costs. It noted that:

> *There are numerous examples of poor value for money, potentially costing Australia billions of dollars.*

The Property Council argues that part of this inherent inefficiency is derived from the fact that the responsibility for infrastructure planning and funding is linked to the administrative boundaries of government, rather than a more logical approach to land-use planning for a region, or an economic zone.

This means that many important projects that might sit at a regional scale slip through the cracks between levels of government, or are subject to ongoing arguments about who is responsible for funding.

It also means that the State's investment in developing regional plans is not leveraged through a strategic tool to inform infrastructure investment.

In addition to this, various levels of government have established multiple infrastructure funding 'buckets' which further dilute the ability to integrate infrastructure funding and planning.

Governments are increasingly disaggregating infrastructure investment through bespoke funding buckets that reward 'shovel ready' projects, thereby making strategic investments more challenging.

The Australian National Audit Office (2013) notes that:

> *The precise number and value of grants made by the Commonwealth Government in any one year is difficult to establish as details are contained in individual entity documents… nevertheless, it is fair to say that total grants expenditure is billions of dollars over many thousands of grants and the administration cost is considerable.*

An example of a current Federal Grant that can be used for infrastructure is Federal Assistance Grants (FAGs). FAGs provide Queensland councils with $450 million in funding, much of which is invested in infrastructure.

However, there is generally little or no scrutiny or assessment in an objective way to determine how effective the spending on new capital projects has been and what benefits are realised in the process.

This is clearly demonstrated by the FAG's criterion which bizarrely requires 'effort neutrality'. Effort Neutrality is explained as:

> *An effort or policy neutral approach will be used in assessing the expenditure requirements and revenue-raising capacity of each local governing body.* ***This means as far as practicable, that policies of individual local governing bodies in terms of expenditure and revenue effort will not affect grant determination.***

In essence, the Commonwealth asserts that they require no demonstrated performance around capital management in order to receive funding.

Incredibly, the situation gets more irrational when the variety and scale of these various funding buckets are considered.

For example, within road funding there are numerous programs at the Commonwealth, State and local level. In some cases various funding programs can be utilised for the same works, however there is little distinction for applicants regarding how or why one funding option should be preferred over another.

For example a road project could receive Commonwealth funding through:

- Federal Black Spot Funding
- Roads to Recovery Funding
- Safer Roads Sooner Funding
- Natural Disaster Relief and Recovery Arrangements (NDRRA)
- FAGS General Purpose or Road Component Funding.

It could also receive State funding through:

- Transport Infrastructure Development Scheme (TIDS)
- Local Road of Regional Significance
- Community Resilience Funding
- Catalyst Infrastructure Funding.

Given the variations of programs available, it is difficult for Government to focus and prioritise its spending taking into consideration the broad view and application of these programs and the potential overlap.

The outcome of this in simple terms is 'every child gets a prize', rather than a mixed approach whereby additional benefits flow to projects that can demonstrate true merits above a baseline for generating economic benefit to the region, state or nationally.

The result of this disaggregated 'multiple buckets' approach to infrastructure investment is that is has no link to an overall strategic purpose and is thereby failing to deliver maximum return on investment.

The current approach to funding and prioritisation is summarised below:

- Across government there is a multitude of grants with an aggregated value of over $7bn annually for economic infrastructure-related projects. Furthermore, the overall grant pool doubled in the decade to 2012-2013 reaching $26bn in 2014-15, and is projected to increase to 2017 on trend. However, there is very little coordination across the funding pools and programs, which creates the potential for inefficiency, duplication and questionable efficacy.

- There is no clear strategic oversight of the purpose of these multiple funding streams and how they help to meet overall government objectives and deliver infrastructure priorities. In this funding environment projects that fulfil manifesto pledges can proceed regardless of how they compare against less-developed, but arguably more important, infrastructure requirements.

- There is generally little or no objective assessment of the effectiveness of spending on new capital projects, and of what benefits have been realised in the process. The lack of strategy means that 'shovel ready' projects are better placed to receive funding, regardless of their overall value for money, economic benefit and social contribution.

- The cost to government of administering such a complex grant funding environment has not been calculated, although it has been estimated as a 'considerable' proportion of the overall spend.

In the current fiscally constrained climate where government funds for infrastructure are scarce, it seems a logical approach to explore how current grants funding could be put to better use by aligning it more closely with strategic land use priorities at a regional level.

3.2 The solution: A reallocation of infrastructure funds linked to existing and new governance structures

The Property Council is proposing a new framework whereby <u>some</u> infrastructure funds are reallocated to ensure a greater alignment with regional plans and regional economic growth targets.

Our solution is premised on adapting the successful 'City Deals' approach from the UK which aims to align funding with a governance structure that invests in regional infrastructure priorities.

Figure 1 explains how this proposed reallocation would work, including its alignment with existing frameworks at federal, state and local level, which would continue largely unchanged.

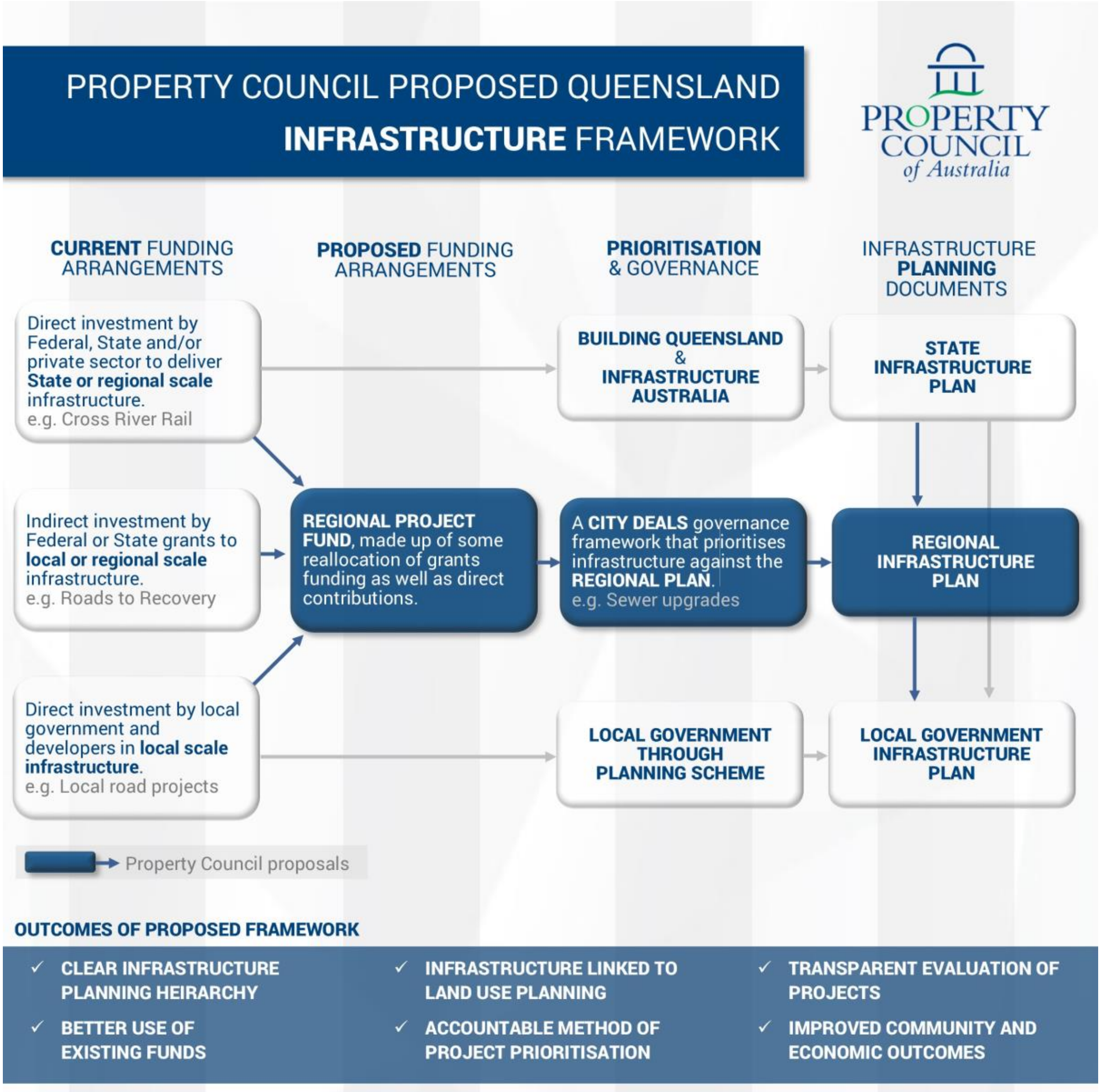

Figure 1 Property Council proposed Queensland Infrastructure Framework

3.3 Benefits of the new paradigm

The framework in Figure 1 provides a strategic pathway for how infrastructure should be planned, prioritised and funded, showing a clear link between infrastructure and land-use planning. This will lead to better integration between all three levels of government and assist in delivering outcomes over the 5-15 year timeframe and beyond.

The realignment of infrastructure funding and governance would result in:

- The prioritisation process being driven by alignment with strategic objectives and selected metrics that reflect economic, social and environmental benefits.
- A governance model that has relevant stakeholders agreeing on the infrastructure requirements, along with a level of bipartisan political agreement that provides projects with a degree of legitimacy.
- A review of the multiple infrastructure funding programs across all levels of government to identify opportunities to amalgamate funding streams. This will reduce duplication and improve efficiency of administrative arrangements.
- Grant funding aligned with strategic, agreed infrastructure and land-use planning priorities, to ensure the best use of existing funds.
- Greater transparency surrounding the assessment and allocation of funding for infrastructure.
- A reliable framework for business to invest with confidence, providing greater certainty for the community.

4. Further comments

Along with the revised framework outlined above, the Property Council provides the following comments on key aspects of the draft SIP:

4.1 'Good' versus 'bad' value capture

The Property Council is encouraged by many of the items highlighted for further investigation in Implementation initiative number 4 – *Offset infrastructure costs by appropriately capturing value.*

With the property industry already contributing 49.8 per cent of State taxes and local government rates, fees and charges revenues in Queensland in 2013-14, it is clear that any value capture model must draw from existing government revenue streams ('good' value capture), rather than imposing increased or additional taxes on development ('bad' value capture).

'Good' value capture is supported by the Property Council as it clearly defines the link between the delivery of infrastructure and the economic growth that it unlocks. The additional taxes, fees and charges that are collected as a result of this economic uplift are identified and directed towards paying for the infrastructure.

There are numerous 'good' value capture models that exist both within Australia and overseas that have the potential to operate successfully in Queensland, without the need to introduce new taxes, fees or charges. The Property Council's submission on the *directions paper* provided detailed research on different models that could be utilised.

Of particular note are Growth Area Bonds (which would fall into the category of Tax Increment Financing, or TIF, as identified in the draft SIP) that are widely used internationally to fund investment in urban renewal and expansion areas.

As per the diagram below, the Growth Area Bond model is delivered through the Government issuing public bonds to the estimated value of the infrastructure needed for the area (both hard and community infrastructure). As the area expands with housing, public and commercial development, the additional tax revenue flows to Government are used to repay the bond and the declared interest amount.

After the bond has been repaid to investors, the remaining revenues are retained by the Government, and can be reinvested in future infrastructure projects.

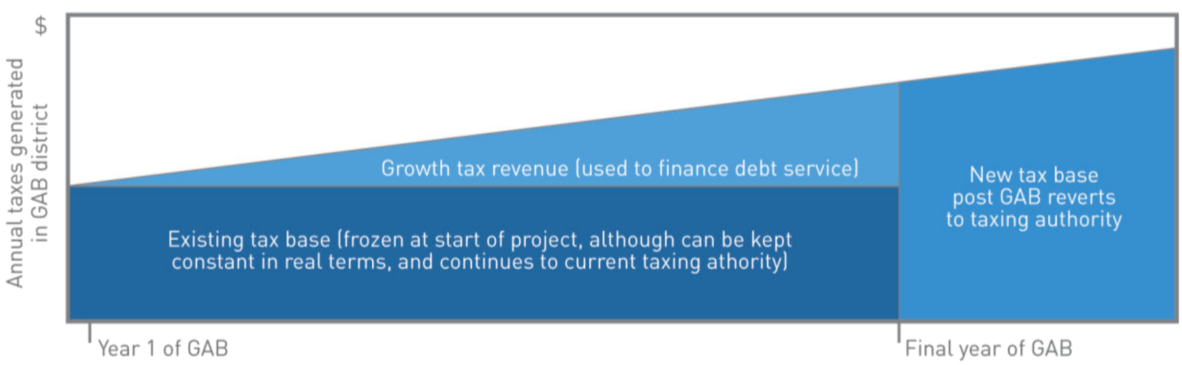

Figure 2 The Basic GAB Model

'Bad' value capture models on the other hand, seek to increase or introduce new taxes as a way of capturing the uplift in economic growth as a result of investment in infrastructure. Any additional tax will, however, negatively impact on investment decisions and limit the growth opportunities the provision of new infrastructure would otherwise unlock.

'Bad' value capture fails to acknowledge the additional uplift in revenues governments already receive as a result of increased property values, through their flow-on impacts to existing valuation-based government tax streams such as land tax and local government rates.

The Property Council does not support any new or increased taxes on the property industry, either through the introduction of value capture mechanisms, or through other methods such as the introduction of State infrastructure charges, which is also flagged in the draft SIP as a potential funding option.

Despite a significant amount of work being done to improve Queensland's local government infrastructure charging framework over the past five years, by their nature, infrastructure charges remain a highly inefficient and inequitable form of funding public infrastructure.

The introduction of 'bad' value capture and/or State infrastructure charges goes against the Government's commitment of no new or increased taxes, fees and charges.

4.2 Long term planning of infrastructure

The draft SIP provides a foundation for how infrastructure will be planned and delivered into the future, and this is welcomed by the Property Council.

In reviewing Part B of the document it is clear that while there is sufficient information on the projects that are planned to occur over the next four years, more detailed information is needed on the types and location of infrastructure that will be required over the 5-15 year timeframe.

As many of our members operate in large greenfield communities with 20+ year development horizons, the '5-15 year opportunities' outlined in the draft SIP do not provide enough certainty for them to make long-term investment decisions.

Detailed planning has already been undertaken for many of the longer term generic 'opportunities' identified, with infrastructure reserves and design solutions already in progress. It is vital that these works are reflected in the SIP.

Where planning has begun, but funding sources have not been identified, it is the Property Council's preference that these plans are included in the SIP in as much detail as possible. An unfunded or partially funded plan will provide greater certainty to our members than the current generic statements provided in the '5-15 year opportunities'.

Additionally, many departments have already developed their own plans and schedules of work that extend beyond the four year horizon of the projects in the draft SIP.

As these departments will be required to feed their plans into the SIP on an annual basis, if the 5-15 year projects in the final SIP are confined to the generic statements of the draft SIP, there is a risk that the longer term planning work that has already been completed by various departments will no longer be made available to the public.

Where long term planning work is made available by the individual departments, there is a concern that infrastructure projects will continue to be considered in isolation, rather than through the integrated methodology proposed in the draft SIP.

Whilst it is acknowledged that the draft SIP aims to outline opportunities to promote innovative or alternative funding and delivery solutions, providing potential investors with greater information about the opportunities that currently exist will spark greater private sector interest and facilitate the development of more market-led proposals.

4.3 Private ownership of infrastructure

With a continued reliance on the private sector to fund and build infrastructure that has traditionally been the responsibility of government, there needs to be a discussion and further assessment carried out on alternative ownership models.

Operating within a fiscally-constrained environment, an examination must take place about the opportunities for private sector ownership of new assets and those outside of the immediate control of the State Government.

Along with taking responsibility for the delivery of new infrastructure, an opportunity exists for the private sector to take on the long-term ownership and operation of many infrastructure assets.

Particularly where monopolies exist, such as water distributor-retailers and energy providers, private sector ownership may enable faster and cheaper delivery of new or expanded infrastructure.

5. Conclusion

The Property Council would like to again thank the Government for the opportunity to provide a submission on the draft *State Infrastructure Plan*, and for the opportunity to be involved in ongoing stakeholder consultation on planning and funding infrastructure in Queensland.

If you have any further questions about the Property Council or the detail included in this submission, please contact Chris Mountford on 07 3225 3000, or cmountford@propertycouncil.com.au.

Yours sincerely

Chris Mountford
Executive Director

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6. Contacts

Chris Mountford
Queensland Executive Director
Property Council of Australia
Phone: 07 3225 3000
Mobile: 0408 469 734
Email: cmountford@propertycouncil.com.au

Jen Williams
Queensland Deputy Executive Director
Property Council of Australia
Phone: 07 3225 3000
Mobile: 0448 432 936
Email: jwilliams@propertycouncil.com.au