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The Value Capture Discussion Paper
Infrastructure Investment Division
The Department of Infrastructure and Regional Development
GPO BOX 594
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Using Value Capture to Help Deliver Major Land Transport Infrastructure

The Property Council of Australia is pleased to provide a submission to the Infrastructure Investment Division on its discussion paper setting out a range of possible options to stimulate the use of value capture in the development and delivery of transport infrastructure.

The Property Council is the peak body representing the interests of owners and investors in Australia's $670 billion investment industry.

Our members are long-haul investors in cities, so understand the case for improving their productivity, sustainability and liveability – of which the provision of transport infrastructure is a central component.

Australia has a real infrastructure shortfall, but it is clear that poorly designed value capture carries real economic, social and political risks for governments, business and the community. New taxes disguised as value capture mechanisms will increase the cost of housing and commercial development, putting at risk affordability and economic productivity.

Governments need to be prudent in selecting methods of funding infrastructure to ensure it enhances delivery, productivity and value-for-money.

Mechanisms such as state infrastructure charges and developer levies are extensively used today by state and local governments across Australia. In addition, existing value based taxes levied on landholders- including land tax, rates, stamp duty, fire services, property and car parking levies- capture uplift in value from infrastructure investment.

The Property Council welcomes the discussion on how best to fund infrastructure, however, it is vital that the Federal Government firmly rules out new taxes disguised as value capture mechanisms.

We recommend the Federal Government provide clear guidance on the value capture mechanisms it supports and those that it does not, and avoid incentivising state and territory governments to adopt harmful policies.

This should be made explicit through amendment of the Federal Government's *Principles for Innovative Financing* – and business cases seeking federal funding support which breach these principles should be rejected.

Please contact me if you require further assistance and subject to availability; we would of course be happy to participate in any ongoing consultation.

Yours sincerely

Ken Morrison

Chief Executive

PROPERTY COUNCIL of Australia

PROSPERITY | JOBS | STRONG COMMUNITIES

Using Value Capture to Help Deliver Major Land Transport Infrastructure:

Roles for the Australian Government

February 2017

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Executive Summary

The cost of congestion in our cities is rising – harming productivity, livability and sustainability.

The challenge of funding the nation's major land use transport infrastructure is acute and finding the correct solutions is necessary to meet broader policy goal of lifting economic growth.

It is clear, however, that poorly designed value capture carries real economic, social and political risks for governments, business and the community.

Governments need to be prudent in selecting methods of financing and funding infrastructure to ensure it enhances delivery, productivity and value-for-money. Failure to do so is to risk the value generated by new infrastructure by adding more tax at a time when our cities need to urgently address congestion and housing affordability.

Any focus on revenue generation the expense of user outcomes must be re-evaluated with the economic growth and productivity outcomes its seeks to deliver.

There is a number of proven funding mechanisms at the Government's disposal to put infrastructure funding on a sustainable footing: User charges, asset recycling and other reforms will support infrastructure funding without undermining economic growth or adding to the tax burden on business. Tax incremental financing provides a sustained commitment to infrastructure as it provides its own source of revenue - generated from infrastructure and development that would have not occurred in the absence of investment.

These mechanisms are more sophisticated than the current ad hoc approach to funding infrastructure and provide the Federal Government with the opportunity to drive state and local governments to better deploy proven approaches to funding needed infrastructure.

Value capture may have a place in the infrastructure funding mix, however, any assessment of value capture concept needs to first acknowledge the myriad of existing valuation based taxes levied on landholders - including land tax, rates, stamp duty, fire services, property and car parking levies - that currently capture uplift in value.

Well-designed value capture models can help resolve the burdensome regime of infrastructure charges and taxes levied by states and local governments with a fixed levy, determined through consultation with main land owners, from the outset of a significant transport infrastructure project and feature coordinated land use planning to substantially intensify development around the investment.

The Federal Government must provide clear guidance on the well-designed value capture mechanisms it supports and those that it does not, and avoid incentivising state and territory governments to adopt harmful policies that represent another tax.

This should be made explicit through amendment of the Federal Government's *Principles for Innovative Financing* – and business cases seeking federal funding support which breach these principles should be rejected.

The property industry – an overview

Let property grow the economy

Property is the nation's largest industry and creates prosperity, jobs and strong communities.

Property is a major part of both the household balance sheet and the Australian economy.

Property:

- directly contributes 11.5 percent of economic activity – or $182 billion to Australian GDP
- is the nation's second largest employer, creating 1.1 million jobs – which is more than mining and manufacturing combined
- helps provide a wage to one in four Australians
- pays $72.2 billion in wages directly, and another $119 billion in wages indirectly
- delivers 16 percent of the nation's tax revenue, with $72 billion in taxes paid to federal, state and local governments
- allows people to save for their retirement and reduce government's pension costs, with 14.1 million having a stake in property through their super funds

It is crucial that policymakers work to support the industry given it is vital to Australia's economic fortunes.

About the Property Council

The Property Council champions the interests of more than 2200 member companies that represent the full spectrum of the industry, including those who invest, own, manage and develop property across all asset classes.

Our members are long-haul investors in cities - they have an inherent interest in seeing them prosper and an understanding of the policy settings needed to make them work.

Growing Cities Create an Ongoing Demand for Infrastructure

Cities are the engine rooms of Australia's economic prosperity, generating more than 80 per cent of our gross domestic product. They are home to the bulk of our population; the location of our most productive businesses; and the generators of much of our wealth.

Linking where people live and work

Australia's highly urbanised society has a strong economic dimension with 75 per cent of Australia's population growth over the next 20 years forecast to occur in our four largest cities.

The Infrastructure Australia Audit released in May 2015 reveals the Australian population is expected to grow from 22.3 million in 2011 to 30.5 million in 2031. In our four major cities of Sydney, Melbourne, Brisbane and Perth, population will increase around 5.8 million, or by 45%, to 2031.

Living and working in close proximity is a key driver of productivity in a knowledge driven economy. This will drive new economic centres and demand for better housing choices.

Strong population growth and a need for proximity makes for increasing demands on infrastructure - challenging productivity and growth with overcrowded roads and public transport, disconnected from desirable housing types in preferred locations.

The Bureau of infrastructure, Transport and Infrastructure in 215 found urban congestion currently costs the nation $16.5 billion every year and is forecast to rise to as much as $37 billion by 2030.

Funding the next generation of major land-use transport infrastructure to lift the liveability and sustainability of our cities, and in-turn boost productivity and growth.

Funding Infrastructure: Proven mechanisms

The challenge of funding the nation's major land-use transport infrastructure is acute and there is no doubt that constrained balanced sheets across all tiers of government mean that innovative solutions need to be found.

Proven mechanisms already exist to fund infrastructure that are more sophisticated than the current ad hoc approach that applies across the nation.

The Federal Government has a significant opportunity to drive state and local Government to implement these reforms by making its financial contributions conditional on the appropriate application of good reforms that unlock capital and improve land use outcomes.

Select forms of value capture may have a place in the funding mix, but it won't supersede the need for governments to continue to pursue user charges, asset recycling and other initiatives to generate the funds needed to pay for our infrastructure.

No 'Silver Bullet'

Value capture is often touted as the innovative, universal solution to address infrastructure funding challenges.

However, there needs to be a clear understanding that value capture is only appropriate in certain circumstances, and that this approach cannot fully fund the cost of infrastructure.

Infrastructure Australia has recognised that this is not the case and strongly cautioned that, although it may provide a useful source of incremental funding, governments must be realistic about expected outcomes.

Similarly, value capture mechanisms represent a contribution to the cost of infrastructure provision, the size of which will depend on the model used, the nature of the project and the degree to which investment results in increased economic activity.

In exploring the best ways to fund infrastructure, it is necessary to canvass options beyond some forms of value capture.

Asset recycling and private financing

All governments are constrained by their balance sheets, but some are leveraging this constraint more effectively than others.

Where there is capacity, consideration should be given to the use of public debt to fund initial investments in infrastructure, with the gains from increased economic activity being reinvested into further projects.

Asset recycling has been also used at a limited scale – and should be accelerated.

Positive examples include:

- the NSW Government's program to divest itself of 49 percent of its energy assets to generate over $20 billion
- the disposal of state-owned ports across several jurisdictions
- the sale of non-strategic land and property holdings in some states
- the use of unsolicited bid frameworks to help accelerate the financing and delivery of infrastructure, and
- using PPP-style financing to capitalise major infrastructure projects, most notably roads but in select cases, transport and social infrastructure as well.

But in some states, the leasing or sale of infrastructure which can be more effectively operated and managed by the private sector has halted – often for ideological reasons alone.

In our view, it is questionable whether governments that fail to effectively manage their own balance sheets should be able instead resort to new taxing methods to resolve self-imposed funding constraints.

The Commonwealth's Asset Recycling Initiative – with $5 billion in funds set aside to provide incentive payments to states is a positive example of how to encourage states and territories to raise funding for infrastructure projects.

According to the 2016 Budget, the $3.3 billion provided the Asset Recycling Fund delivered a total of $23 billion in infrastructure investment and a balance of $854 million was allocated to consolidated revenue.

As a successfully proven mechanism to fund infrastructure investment, the asset recycling program must be re-established before trialing poorly designed value-based mechanisms that present very real economic, social and political risks for governments, business and the community.

Tax Increment Financing

Tax increment financing is a method of funding infrastructure used commonly in the US and UK – and should be trialed in Australia.

Its benefits include:

- a more transparent approach to infrastructure selection and provision
- a sustained commitment to infrastructure provision which is removed from the vagaries of the electoral cycle
- the provision of infrastructure is appropriately timed
- governments having a stake in making integrated decisions around infrastructure and land use
- avoiding the trap of other forms of value capture by using existing taxes and tax rates – and only capturing value as it truly accrues

In short, it involves governments issuing bonds to pay for infrastructure – and recapitalising them through the tax revenues arising from economic growth that follows.

Tax increment financing involves:

- identification of a suitable precinct or project and establishment of a TIF authority

- preparation of a plan for the area's growth, infrastructure requirements and financial commitments
- establishing the pre-existing tax revenues currently derived from the area
- issuing bonds (usually, government-backed) to fund infrastructure works
- repaying the bonds from the incremental increase in property taxes (above the pre-existing base) generated by new infrastructure and development, and
- ensuring that once the bonds are repaid, all property tax revenue for the area returns to general revenue.

In 2008, the Property Council commissioned research and modelling with PwC on the potential application of tax increment financing in Australia. A copy of our research report is available here:

http://www.propertycouncil.com.au/Web/Content/Submissions/National/2015/New_thinking_on_infrastructure_funding.aspx

Tax Increment Financing is often misunderstood as a financing technique and, as noted by Infrastructure Australia, access to infrastructure financing in the form of debt or equity to meet the upfront costs of construction is readily available.

Tax incremental financing provides a sustained commitment to infrastructure as an own source of funding - generated from infrastructure and development that would have not occurred in the absence of investment.

Given the Government's commitment to UK-style City Deals, the tax incremental financing approach demonstrate the benefits of coordinating infrastructure investment with land use planning and economic growth objectives. In the case of the Greater Manchester City Deal, the councils agreed to invest £1.2 billion in new infrastructure in return for being able to earn back up to £30 million per annum from the central government over 30 years.

As recognised by the Discussion paper, the Government's position allows for readily available financing of the upfront capital costs secured by hypothecated tax revenues arising from economic growth.

The Government is urged to further test the adoption of TIF in Australia. Leveraging the Commonwealth's balance sheet and financial position as a guarantor of initial TIF funded infrastructure projects has the potential, in time, to establish a bond market due to the security of the repayments and create a sustainable source of infrastructure funding.

Value Uplift is Captured by Existing Taxes

Any assessment of value capture concepts needs to first consider how the existing tax structure contributes to the capacity of government to fund infrastructure.

Just another tax?

At the most fundamental level, any consideration of value capture mechanisms must take into consideration the already significant burden placed on property, particularly new development.

The property industry is highly taxed - contributing 16 per cent of the nation's tax base and pays over $72 billion in revenue to federal, state and local governments.

These include:

- $21 billion in taxes to the Commonwealth, or 6.2 percent of its total tax revenue
    - including company tax, capital gains tax and the GST – all of which capture the benefits of economic uplift
- $27 billion in taxes to the states, or 34.9 percent of the total state tax base
    - including stamp duty, payroll tax and land tax – which is a mix that reflects economic uplift, or in the case of land tax, captures land values directly
- $23 billion to local government in rates, fees and charges
    - with the primary contribution coming from rates – another tax that is based on land values
- and infrastructure charges already contributing to the cost of local infrastructure or works-in-kind that directly deliver infrastructure

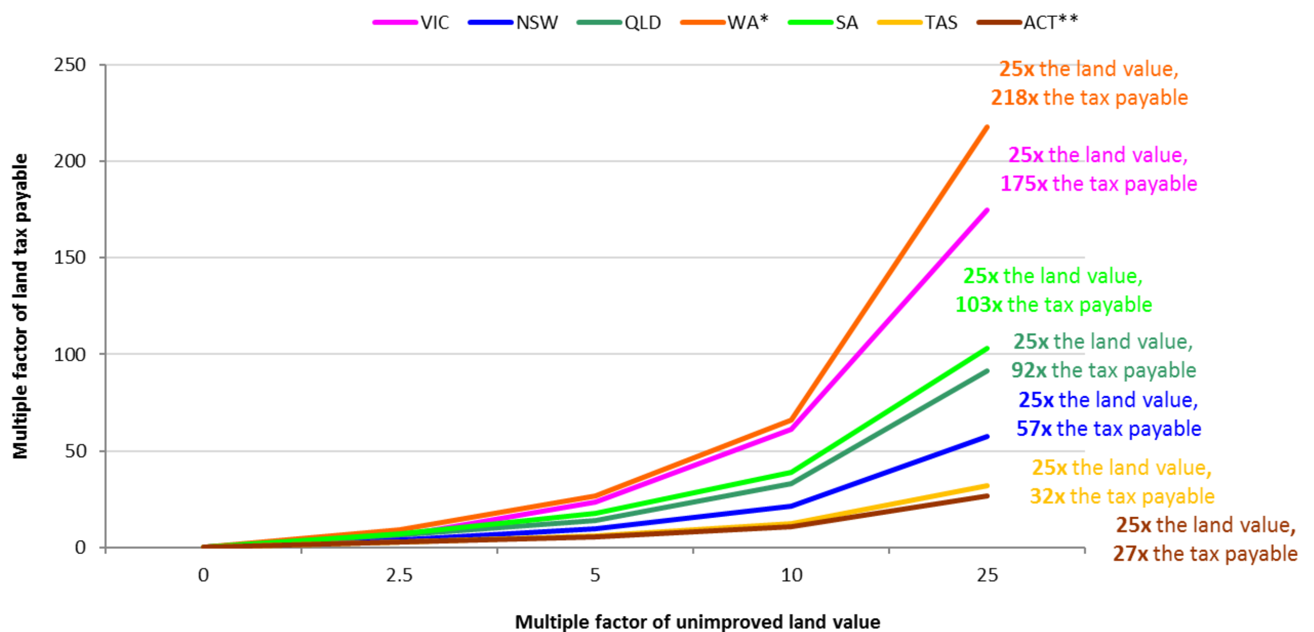
There are also strong biases against property, particularly commercial property, in the existing tax structure. These include:

- valuation methodologies that vary across the state, including the use of improved valuation that hits investment in high-value commercial property
- capacity-to-pay provisions in rating systems that sees the weight of taxes fall predominately on commercial property

- inefficient taxes such as stamp duty that inhibit transactions and activity
- commercial property paying rates on a higher ad valorem base
- differential rates of land tax, including aggregation for commercial property portfolios
- the exemption of owner-occupied housing from land tax, again pushing the weight onto commercial property
- other property taxes such as fire and emergency service levies that force commercial property to carry a high burden of costs
- a dysfunctional system of infrastructure charges across states and local councils.

These existing taxes capture uplift, both in land and from economic activity. The concept of value capture runs the real risk of states and territories imposing a raft of new taxes and levies above those that are already paid.

The graph below demonstrates the escalation and disconnect between land tax payable; a value capture mechanism that is used across Australia, by commercial properties and underlying land values:



Commercial property is subjected to a number of valuation based taxes as is the development of new commercial and some residential property.

Taxing new development is neither innovative, nor conducive to encouraging investment. Importantly, the inability of housing supply to keep pace with population growth in our major cities has been a key driver of Australia's poor housing affordability.

New costs on this process will likely make this worse – undermining any productivity, liveability and sustainability gains of infrastructure investment.

Owner-occupied housing currently benefits from exemption from a number of valuation based taxes including land tax and capital gains taxes. Some have argued for an additional low land tax on owner occupied housing as a basis to capture the uplift from infrastructure investments.

A low rate surcharge on owner-occupied dwellings could provide a revenue stream to support infrastructure project funding. However, removing the exemptions to make a broad-based land tax change would be contentious and governments would have to provide a compelling narrative for change.

In addition, there is a strong argument that if a low residential land tax were implemented it should be part of a package that funded the abolition of stamp duty, widely recognised as the most economically harmful tax.

Given these challenges, we do not support the imposition of a new land tax on the family home to fund infrastructure.

Ultimately, for a value capture mechanism not to be considered as "just another tax", it must be appreciated that taxes based on valuation already capture significant value across the country.

Any assessment of value capture concepts needs to first recognise

- how the existing tax system already contributes capacity to fund infrastructure
- the heavy burden already carried by property across the nation's tax base
- that existing taxes capture uplift, both in land values and from economic activity
- whether the mix of potential solutions encourages efficient and effective land use

Principles and Tests

Contemplating any new model for infrastructure charging requires discipline and rigor to ensure that it is integrated - rather than adding to the tax burden.

Implementing value capture effectively can be far from straight forward. There are several principles and tests that should inform any consideration of value capture by government.

That is:

- The existence of independent, clearly justified and long-term infrastructure plans
    - Before financing can be considered, a clear business case for the investment in infrastructure, including the economic benefits expected, must exist
- The policy objectives of any value capture mechanism and the degree to which it can be achieved on a given project
    - Value capture mechanisms are not appropriate for all projects
    - Value capture mechanisms are a means of financing part of the cost of infrastructure, and should not represent a new revenue stream for governments
- the integration of any new model with the existing infrastructure charges and property tax regime
    - how it can ease the burden and inefficiencies inherent in the existing regime of infrastructure charges, rather than becoming an additional tax
- A clear understanding of the different costs incurred through the development cycle, depending on type
    - Time and cost of amalgamating fragmented land
    - Degree of planning risk to proponents
    - Differences in the infrastructure requirements between greenfield and brownfield sites
    - The investments developers already make in economic and social infrastructure and improved urban amenity
- The effects of any value capture mechanism on property investment and development
    - there is substantial benefit derived through the existing tax base from private investment that drives economic aggregation, efficient land use and supply-chain benefits
- The implications for efficient and effective land use
    - reduction of planning risk for proponents
    - and removing the incentive for consent authorities to suppress planning controls

- Whether it truly captures real value, or assumes it
  - the nexus between the charge and the actual cost of infrastructure must be demonstrated
- The correct point of payment in the development cycle
  - with clear reference to the timing of infrastructure delivery

‘Value capture’ Gone Wrong

In contemplating value capture concepts, we would urge governments to first assess variations of the model that have already been tested – and failed.

Voluntary Planning Agreements

In NSW, Voluntary Planning Agreements (VPAs) were originally conceived as a vehicle for innovation and forward funding of critical infrastructure. They were also supposed to be sponsored primarily by project proponents.

Used properly, they help facilitate innovation in the built form; unlock sites across our CBDs, urban renewal precincts and greenfield land; and help forward fund critical infrastructure.

However, they have since morphed into a revenue play by councils. In short, the bulk of Sydney councils require projects using a VPA to allocate 50 percent or more of perceived increase in value as a contribution to the consent authority.

This practice:

- establishes no nexus between the cost of infrastructure and the charge being imposed
- fails to recognise the rezonings are required to facilitate feasible development outcomes, as existing planning controls are out of date
- encourages councils to suppress planning controls in order to produce a revenue stream
- obliges developers to pay the contribution, or risk their project being refused rather than assessed on merit, and
- ignores the fact council rates already capture the uplift in value that accrues.

Councils are also now forcing projects which should be subject to a DA pathway only into planning proposals as a way of securing VPAs and the associated income streams.

Lease Variation Charge

In 2011, the ACT Government introduced the Lease Variation Charge, which applies in three primary circumstances – residential subdivisions, site redevelopment, or charge of land use to underpin urban renewal.

The original proposition was that Government should capture 75 percent of any increase in value from a lease variation – on top of stamp duty and land tax.

At the time of its introduction, the Property Council warned the LVC would:

- raise the cost of housing, and stifle development
- suppress urban renewal essential for the modernisation of Canberra, and
- fail to raise anticipated revenues.

The ACT Government's own budget data for 2015 makes clear this has occurred, with:

- the original budget estimate from 2012 of $23 million in revenue failing to be achieved
- the revised budget target for 2015 of $14 million not achieved – falling short by 20 percent
- Canberra having one of the highest office vacancy rates in the country at 15.3 percent, as the LVC had prevented the conversion of empty, redundant C and D grade offices.

In short, the Lease Variation Charge has both failed as a revenue stream, and discouraged good urban planning outcomes.

Funding Mechanisms Used in Value Capture

Value capture and other innovative financing approaches should not be contemplated for the provision of infrastructure that does not provide significant uplift to the broader community.

At the most fundamental level, any consideration of value capture mechanisms must take into consideration the already significant tax burden placed on property.

Government Grant Funding

Infrastructure investments are funded from general taxation, sometimes supplemented through user charges, as the benefits of the investment are directly or indirectly shared across beneficiaries.

Rational

The capacity fund infrastructure through grants is raised through the existing tax structure including valuation based taxes levied on the property sector.

Value capture mechanisms will never cover the cost of new or significantly upgraded infrastructure in its entirety. The costs of infrastructure are beyond any one sub-set of society to pay for it. Any contribution made by value capture is likely to be incremental, and there is a practice limit on how much funding value capture can and should raise.

Position

Value capture can only ever be considered as part of a funding mix, it cannot and should not, fully fund infrastructure investment.

Grant funding is supported as it current practice for infrastructure funding.

Where there is capacity, consideration should be given to the use of public debt to fund initial investments in infrastructure, with gains from economic activity being reinvested into further projects.

User Charges

The creation of a revenue stream funded by the direct users over the lifecycle of the infrastructure.

Rational

User charges are considered the norm in many public infrastructure sectors (including electricity, gas, telecommunications, water, ports, airports, and public transport). Well-designed and efficient user charges are likely to be superior to taxpayer funding of infrastructure in many situations.

Efficient user charges are an effective means to reveal willingness to pay for new infrastructure and to improve the use and augmentation of existing infrastructure. Infrastructure can provide benefits over generations, user charges too can span generations if they properly reflect the effective life of the assets concerned.

Position

Well-designed user charges provide a long term, sustainable funding base for major transport infrastructure and should be used to the fullest extent that can be economically justified. However, governments will still have to fund some infrastructure projects and address any equity issues.

Networkwide Fare-Box Surcharges

Users of the broader network benefit from major system upgrades due to infrastructure investment.

Rational

All users of the infrastructure, specifically public transport infrastructure benefit when the broader system is upgrade and, given that fare box revenues only cover 20-30 per cent of operating costs there is an opportunity to introduce a fare box surcharge.

Position

This approach is supported as it ensures that those benefiting from the improved infrastructure contribute to the operating cost over the lifecycle. However, it may be met community resistance and must be modestly applied to ensure that the demand is not impacted.

Betterment Tax Levied Annually

Captures a portion of the estimated value uplift on land (residential, commercial or both) within an infrastructure catchment area, calculated on above market increases in land values, levied annually.

Rational

In theory infrastructure investments often provides local households and businesses with improved accessibility or amenity. These benefits are reflected in the value of the land or property. This uplift however can only be accessed once the property is sold or able to be redeveloped and therefore, the tax is on future earnings - irrespective of the final value of the land or property upon disposal.

Position

Betterment taxes are not supported as the degree of value uplift attributable to infrastructure investment is not easily determined – and already secured through the existing tax base. Furthermore, this process is very complex and costly to administer.

> *A recent Infrastructure Victoria research paper modelled a range of value capture mechanisms, including the possibility of 'betterment taxes' on existing properties within one kilometre of the potential future Melbourne Metro Rail 2 project. The model flagged adding $840,000 each year for 30 years for a 40,000 sq m existing office building, on top of the land tax already paid for the asset.*

Other valuation based taxes such as land tax, stamp duty, capital gains tax and council rates will overlap with any betterment tax levied and will capture any value uplift.

Rate Surcharge on Residence

A surcharge on residential property set at a low rate would provide a revenue stream to borrow against to contribute to funding infrastructure.

Rational

A broad based low rate surcharge set at a low rate, hypothecated to funding infrastructure, geographically bounded and set for a period of time is in theory a fair and efficient approach. However, any taxes would be applied irrespective of land value and therefore would be less costly to administer than a betterment tax.

Position

Owner-occupied housing currently benefits from exemption to a number of valuation based taxes including land tax and capital gains taxes. Some have argued for an additional low land tax on owner occupied housing as a basis to capture the uplift from infrastructure investments.

Owner-occupied housing currently benefits from exemption to a number of valuation based taxes including land tax and capital gains taxes. Some have argued for an additional low land tax on owner occupied housing as a basis to capture the uplift from infrastructure investments.

A low rate surcharge on owner-occupied dwellings could provide a revenue stream to support infrastructure project funding. However, removing the exemptions to make a broad-based land tax change would be contentious and governments would have to provide a compelling narrative for change.

In addition, there is a strong argument that if a low residential land tax were implemented it should be part of a package that funded the abolition of stamp duty, widely recognised as the most economically harmful tax.

Given these challenges, we do not support the imposition of a new land tax on the family home to fund infrastructure.

Rate Surcharge on Businesses

A surcharge on businesses set at a low rate would provide a revenue stream to borrow against to contribute to funding infrastructure.

Rational

A broad based low rate surcharge set at a low rate, hypothecated to funding infrastructure, geographically bounded and set for a period of time is a fair and efficient approach is applied to businesses. However, any taxes would be applied irrespective of land value.

Position

This is strongly opposed. Value capture mechanisms are already incorporated into businesses taxes and it would be ill-advised to add additional taxes that will stifle investment.

This approach is regulatory arbitrary in the rate, breadth of application and biased against commercial property - ignoring the existing land based taxes or the ability of business to bear further cost increases.

Businesses are subject to land tax, council rates and fire/ emergency services levies at very high rates. Any uplift in land value as a result of infrastructure provision will be captured by these mechanisms.

For example, infrastructure provision that improves land valuation by 10 per cent for an A-Grade office building in Melbourne would increase the land tax payable by more than $110,000 per annum. The significant increase in land tax payable as a result of can be demonstrated across the four major capital cities:

	Original Land Value	Increased Land Value (10% increase)	Original Land Tax payable	Increased Land Tax Payab (10% increase)	Additional Land Tax Payable
Sydney	$50,000,000	$55,000,000	$980,600	**$1,080,600**	$100,000
Melbourne	$50,000,000	$55,000,000	$1,082,475	**$1,194,975**	$112,500
Brisbane	$50,000,000	$55,000,000	$850,000	**$937,500**	$87,500
Perth*	$50,000,000	$55,000,000	$1,297,430	**$1,437,930**	$140,500

* includes WA Metropolitan Region Improvement Tax (0.14 cent of every $ of the unimproved land value above the threshold)

Further, any increase in economic activity attributable to the infrastructure investment will be captured through capital gains tax, company tax and GST payments.

Intensify Development around new Infrastructure

The Australian Government places stronger conditions on funding to drive more efficient use of re-zoning and integrated planning.

Rational

Maximising population density and economic activity around major infrastructure is needed to support growing cities. This delivers the much sought after productivity outcomes from associated agglomeration benefits, which flow through to government tax revenue.

This approach to value capture is highly appropriate for government owned land or air rights around major infrastructure. Governments can realise 100 per cent of the value uplift when the infrastructure project is accompanied by an integrated land use plan that increases density.

Position

This is sensible public policy and is supported. Maximising value capture options involves maximising the commercial and residential development in station catchments. This requires a very active approach requiring strong reinforcement with different levels of governments.

Station precincts must be masterplanned and supported by rezoning and integrated planning provisions to meet the desired densities.

Governments and councils should leverage their own land holdings in the precinct to support the intensification and place making objectives.

Governments should consider the strategic acquisition of land in conjunction with the provision of infrastructure to maximise outcomes.

Government should also actively consider partnering with major landholders in the precinct to deliver intensification outcomes, including considering joint venture arrangements.

Poor coordination between infrastructure provision and land use plans has often resulted in suboptimal densities around new and existing infrastructure, and many growth corridors and economic centers remain under serviced.

This approach boosts transport network efficiency by focusing demand on specific corridors, reducing the need for future infrastructure funding additional multimodal transport systems.

Additional Development levies when Accompanied by Major Rezoning

An additional development levy is applied to developments when the provision of new infrastructure is accompanied by a significant up-zoning to increase density and change-of-use.

Rational

Major new infrastructure investments and major rezoning will unlock substantial new development capacity and growth. Intensifying development opportunities will ensure that land surrounding the investment is deployed for the highest and best use.

Position

It is appropriate that this levy is used to fund new infrastructure investment if certain safeguards are in operation:

- The new infrastructure investment meets threshold tests around scale and significance. The up-zoning must of a significant nature.
- Up-zoning and change-of-use must deliver superior planning outcomes to stimulate development - particularly in infill locations.
- The value of the development levy must be established early to provide certainty to developers.
- The levy must meet the principles and tests that inform consideration of value capture.
- Recognition that this charge may not be appropriate in all circumstances.

The ACT Lease Variation Charge demonstrates where this approach to value capture acts as a disincentive to intensifying development under normal market conditions.

To operate fairly and efficiently, a development levy must replace the myriad of infrastructure charges imposed on developers by the different levels of government during the development process.

This levy must be fixed at the start of the project with no scope for revision as this will erode investor confidence.

It is recommended that the levy is determined in consultation with main landholders as it must be perceived as fair and reasonable so it does not serve as a disincentive to intensifying development.

Voluntary Funding of Infrastructure by Developer

A developer agrees to contribute funding to infrastructure as one-off payment where a nexus between the development and the infrastructure can be demonstrated.

Rational

When appropriately designed, a levy is paid by developers as part of the planning and approval process to fund infrastructure, or a developer may volunteer to deliver part of the infrastructure themselves. This approach to value capture gives developers discretion around funding and/or delivering infrastructure that creates value and unlocks development.

Position

The variation of charges existing across jurisdictions creates uncertainty and requires navigation of complex approvals and charges, which undermines its effectiveness as a funding mechanism.

This approach to value capture would be supported by industry if only it is truly developer-sponsored - not simply a condition to receiving an approval.

However, voluntary funding of infrastructure must be accompanied by safeguards to ensure that it does not incentive governments to under-zone growth areas to leverage additional funding above legislated levels.

The Policy Framework

Addressing the long-term transport infrastructure needs of cities is vital to linking where people live and work, and in turn boosting productivity and growth.

In the absence of coordinated strategic planning across land use and infrastructure investment, there is a very real risk that any value capture mechanism considered by States and Territories will simply add another tax to a sector that delivers $72 billion in tax revenue paid to federal, state and local governments.

We recommend the Federal Government provide clear guidance on the value capture mechanisms it supports and those that it does not, and avoid incentivising state and territory governments to adopt harmful policies.

This should be made explicit through amendment of the Federal Government's Principles for Innovative Financing – and business cases seeking federal funding support which breach these principles should be rejected.

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