NATIONAL GROWTH AREAS ALLIANCE (NGAA)

RESPONSE TO THE AUSTRALIAN GOVERNMENT'S PAPER

USING VALUE CAPTURE TO HELP DELIVER MAJOR LAND TRANSPORT INFRASTRUCTURE

FEBRUARY 2017

Introduction

The National Growth Areas Alliance (NGAA) thanks the Government for preparing its Discussion Paper on value capture and for seeking comments.

Five million people currently live in the fast growing outer suburbs around Australia. Growing at double the national rate, this will reach 7.5 million by 2031. Our research has demonstrated that there is a $50 billion backlog in roads, rail and health facilities[1]. It has also shown that investment will generate jobs growth and a permanent boost to national GDP[2]. These areas are providing affordable housing for Australia's growing population. But they are not getting the investment needed to allow both residents and businesses to flourish. Significant investment is needed by all levels of government to keep pace with this growth and to address the backlog.

Both the Australian Government and Infrastructure Australia have acknowledged that people living in the fast growing outer suburbs are worse off than their inner metropolitan counterparts and average city dwellers and that better transport connections are needed. As recognised in the Greater Sydney Commission's (GSC) 40 year plan[3], a polycentric pattern of settlement is the foundation on which better connected and productive cities can be built. Outer growth areas hold huge potential. With the right transformational projects they could be the smart suburbs of the future. Value capture could be one part of the puzzle to realising these projects.

Value Capture Has a Place

As the Government's paper points out, value capture can be one part of the equation but it is not a panacea. Further clarification on the types of projects it should be applied to would assist the conversation.

The suitability of value capture, and its specific application, depends on local context, including current use, proposed commercial development and benefit, public asset investment opportunities and broader community desire and benefit.

Definition

It would be helpful to have more clarity on what value capture is or isn't and how it differs from what we do now.

Infrastructure Victoria defines it as a form of infrastructure funding that aligns the cost of infrastructure more directly with those that benefit from government investment or planning decisions[4].

To assist the current discussion it would help to acknowledge all the things that happen now to capture the value created by government investment or planning decisions and how that captured value is used. Assuming that the current debate is occurring because there are new approaches and applications for value capture proposed, it would be helpful to articulate what is new and how it adds to current practice.

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[1] SGS Economics and Planning, *Meeting Growth Area Infrastructure Investment Needs, A Benchmarking Analysis,* November 2015

[2] SGS Economics and Planning, *Cost Benefit Analysis of Investment in Growth Areas,* November 2009

[3] Greater Sydney Commission, *Towards our Greater Sydney 2056,* November 2016

[4] Infrastructure Victoria, *Value Capture – Options, Challenges and Opportunities for Victoria, Policy Paper*, October 2016.

Testing in the Australian Context

It will be important to test the concept in the Australian context, in a range of settings, including the fast growing outer suburbs. It would be a useful exercise for the Government to set out a framework and seek potential opportunities, as identified in plans and strategies as strategic priorities. A selection of these could then be pilots for Value Capture.

The development of a national evidence base, methodology and guidelines is supported. State and local governments, where the responsibility for implementation will lie, must be engaged in their development. For example, changes to state legislation may be required to enable local governments to benefit from value capture.

Project Selection Based on Proper Planning

The paper says that projects must be based on sound planning principles and stand up on their own merits. We heartily agree that this is paramount. Yet it also canvasses some ideas that would seem to jeopardise this. For example:

- Suggesting that a project would not proceed unless there is value capture distorts proper planning, even if it has been identified as a potential for value capture. The requirement should be for all available funding mechanisms to be examined, including value capture and an assessment made of what will be viable for each project. This entails significant work and should only apply to carefully selected projects. Value capture should only be implemented once detailed analysis is undertaken, viability is determined and proper stakeholder and community engagement undertaken for each project. It is therefore inappropriate that it be mandated.

- Providing an incentive payment to bring forward projects with value capture opportunities could mean that projects which would otherwise be supported get overlooked. The suggestion to use the city deals framework is better, but mandating value capture is inappropriate for the reasons stated above.

- Seeking to stimulate market led proposals could also see value capture projects leapfrogging other needed projects. Further, giving private sector proponents the ability to influence project design or location in return for contributions runs the risk of proper planning being disregarded.

Win Win

Use of value capture should be about a win win – for those landowners that will benefit over and above market conditions and for the governments in securing funding for the infrastructure. The community will also benefit from having the infrastructure in place. Broad based taxes are appropriate where the wider community, region or city benefits and should be part of the equation. Value capture is an appropriate part of the equation where there is a geographically defined area of expected uplift.

In relation to the question of why would you pay if you didn't have to, you would pay because you would get a benefit from the infrastructure being there.

Assessing the Uplift

There needs to be a calculation of the base case and then a methodology that identifies the portion of uplift attributable to normal operation of the market. Only the uplift over and above that (which would not have occurred had the infrastructure not been in place) should be counted.

Value capture focuses on three main components:

1) Baseline value
2) Uplift percentage
3) Catchment area

Each of these variables needs to be explored in depth to allow for defensible benchmarking. It is important to note that any uplift in value will occur in the future, possibly spread out over a number of years or even decades. A discount rate would need to be applied to ascertain the current value of future uplift.

Potential Pitfalls

There are some potential pitfalls which should be considered. These include:

- Expected funds not being realised
- It could take a very long time for the money to come in.
- The cash flow not covering the expenses as they occur (it is acknowledged that one option is for the Australian Government to provide a loan until the funds are actually captured)
- Development may be dampened if there is not a clear win win in a timely fashion.

Success Factors

Success factors should be spelt out including, for example:

- Projects being grounded in long term strategic plans
- Proper community engagement
- Articulation of how value capture for a project represents a win win
- Funds recouped are dedicated to the identified infrastructure project
- The value capture mechanism is closed off once the identified funds are recouped
- Transport corridors are preserved at an early stage

Popular Vote

The risk with a popular vote is that needed and well founded projects may not proceed. Sub optimal decisions could be made and there could be divisiveness created. There should, however, be proper community engagement. This means that full information is provided in a way that is comprehensible and there is plenty of time and opportunities for communities to absorb, discuss and debate the pros and cons. Their views should then be reflected in the outcome.

Priorities

Priorities for consideration for potential value capture projects might be:

- Where projects also are priorities for or fit into the generic priority areas of Infrastructure Australia
- Where there is a Smart City or City Deal context
- Where there are infrastructure backlogs and identified opportunities, including in the fast growing outer suburbs

Funding Contribution

Asking what is a realistic contribution from value capture is not able to be sensibly answered without assessment on a project by project basis. The more important measure is whether the outcome represents a win win.