13 December 2019

Standing Committee on Infrastructure,
Transport and Cities
c/- ITC.reps@aph.gov.au

Inquiry into options for financing fast rail

To the Committee,

Thank you for the opportunity to provide a brief submission in relation to the Committee's inquiry into options for financing fast rail.

The Urban Development Institute of Australia (UDIA) National recognises long-term role fast rail can play in improving the productivity, connectivity and liveability of our cities and regions – and we appreciate that the Committee's work coincides with the formation of the National Fast Rail Agency (NFRA) and allocation of funding for five faster rail business cases.

We recognise these projects need to be funded using methods that support the headline goal of economic and population growth, and options such as asset recycling, user charges, public-private partnerships (as well as some government funding) should be considered.

UDIA National also knows that prior inquiries by the Commonwealth – particularly its 2017 Discussion Paper on *Using Value Capture to help deliver Major Land Transport Infrastructure* - have contemplated value capture as a potential source of funding. As you may be aware from our submission to the Discussion Paper, there are clear principles and policy goals we think need to inform any consideration of value capture.

Our position is shaped by the industry's exposure to a plethora of poorly designed versions of value capture that already apply at state and local government level, as well as the excessive burden of funding infrastructure new housing development already incurs.

There is also a need to recognise that there are existing taxes – most obviously, land tax and council rates – that are calculated and collected with the express purpose of taxing the value of land, including any uplift that occurs as a result of infrastructure investment.

In our view, recognising that value capture potentially involves a restructuring of existing federal, state and local taxes, it is best developed in the context of an overall commitment to tax reform that improves the efficiency and equity of taxation on new housing. Otherwise, it risks merely adding to the heavy burden already carried by new housing development and in effect, homebuyers.

UDIA National believes that there are a series of headline principles that need to be incorporated into the design of any value capture proposal.

URBAN DEVELOPMENT INSTITUTE OF AUSTRALIA (NATIONAL)
Level 25, Barangaroo Tower 3, 300 Barangaroo Avenue, SYDNEY NSW 2000
T: 02 8277 4573 | E: udia@udia.com.au

These include:

- **Value is captured from all landowners only <u>where and when it actually occurs</u>,** because:

    - Some versions of value capture seek to estimate the amount of gain that is forecast to arise, rather than as it actually accrues as a result of government investment;
    - It provides a better incentive for governments to properly align land use and infrastructure planning and delivery to unlock the value it seeks to achieve;
    - It gives better recognition to the challenges of housing development, including land amalgamation, planning risk, availability of finance and investment in local infrastructure;
    - It is more likely to see any value capture 'rate' set at a level that does not diminish the ability for value to be realised;
    - There is a need to recognise that all landowners, not just those involving in a rezoning or new housing development, benefit from infrastructure investment.

- **Value capture needs to avoid an escalation of the creep of statutory taxes and charges already imposed on new housing development**, including:

    - Elements of the existing tax base that currently capture value – particularly land tax and council rates;
    - Taxes currently designed to capture the benefits of rezoning and seek to support infrastructure investment, such as the Growth Areas Infrastructure Contribution in Victoria or Special Infrastructure Contributions in NSW;
    - Local government taxes and charges geared towards funding local infrastructure.

In fact, a pre-condition to any value capture model should be a requirement that existing infrastructure based taxes and charges should be eliminated or offset, and the capacity of state and local government to create new taxes or charges to fund further infrastructure or policy objectives (i.e. affordable housing levies) needs to be constrained.

In our submission to the Commonwealth's prior discussion on value capture referenced above, UDIA National highlighted several mechanisms that could respond to these challenges and have scope to be developed further. These include:

- **Tax Increment Financing** – using future tax receipts growth, from the incremental increase in property values, in a declared area, as a result of increased amenity brought about by new public infrastructure.

- **Government Owned Lands Financing and Asset Recycling**– where Government has acquired land, or already owns land, that benefits from new infrastructure investment and sells the land that is surplus to that required for the infrastructure for development, at a higher price due to the increased amenity that has or will be delivered. Governments should also use the value of infrastructure they have already built to fund new infrastructure, through asset recycling; or

- **Private Infrastructure Delivery Agreements** – where the Government enters transparent development agreements, on government land, with the private sector, in exchange for the developer partially or fully funding and delivering public infrastructure.

There is potential for the Commonwealth to explore the capacity to manage the risks around value capture by folding it into a mechanism like the City Deals concept, in order to influence or control land use planning where new major land transport infrastructure is being built.

We also attach a copy of our prior submission to the Commonwealth's 2017 Discussion Paper and look forward to continuing dialogue on the issue.

Regards

Connie Kirk
UDIA National – Executive Director