Australian Government

Australian Government response to the House of Representatives Standing Committee on Infrastructure, Transport and Cities' Inquiry into Options for Financing Faster Rail report:

Fairer Funding and Financing of Faster Rail

JUNE 2021

Number	Recommendation
1	The Committee recommends that the Australian Government, in consultation with state, territory and local governments, develop mechanisms at the national level for value capture of uplifts in property values relating to rail infrastructure projects, wholly, or partially, funded by the Australian Government.

Agreed in principle

The Australian Government can play an important strategic coordination role to promote value capture as a way to help fund transport infrastructure projects such as faster rail through its partnerships with state, territory and local governments. Value capture has the potential to effectively increase the number of projects funded from a finite funding pool and encourage better value for money for taxpayers. The Government is already engaged in this space and released its *Principles for Innovative Financing* in February 2016.

Value capture mechanisms can target direct beneficiaries of faster rail investments, requiring that beneficiaries contribute to a portion of project costs. The National Faster Rail Agency (NFRA) and the Infrastructure and Project Financing Agency (IPFA) have worked with a number of faster rail proponents to investigate value capture and innovative financing for faster rail projects. Developing and applying value capture mechanisms is generally the exclusive responsibility of state and territory governments and their local governments as they hold the legislative bases for charging. That said, Commonwealth infrastructure investments and agreements like city and regional deals represent good opportunities to work with the states and territories to maximise the project funds available, with appropriate consideration to value capture.

The Western Sydney City Deal, for example, supports an agreement between the Australian and NSW Governments to implement a State Infrastructure Contribution (SIC) on the net developable area and on the cost of developing station precincts. The funds raised will be used to deliver infrastructure, including rail projects.

The uniqueness and diversity of each faster rail corridor means that the best outcomes are achieved by collaborating with the states, territories and local governments to investigate the value capture opportunities along each of the corridors. This includes liaising with state and territory governments to determine the feasibility of capturing some of the potential uplift in property value from faster rail investments, particularly in cases where the magnitude of value uplift could be significant with corresponding large gains to landowners and developers.

Any consideration by the Australian Government to develop a more broad-based national mechanism for value capture of uplifts in property value is a broader policy question that requires further investigation.

2	The Committee recommends that the development of mechanisms for value capture of land value uplift resulting from wholly, or partially, Australian Government funded rail infrastructure projects should consider and determine: • how mechanisms that utilise rezoning opportunities, such as the Australian Capital Territory Lease Variation Charge, could be applied more broadly • what constitutes a 'just, equitable and fair' portion of uplift to be shared between taxpayers and beneficiaries, and what, if any, caps could be applied • how the value share received can be quarantined, allocated fairly between the levels of government, and used for relevant infrastructure projects • options for streamlining value capture payments, to avoid unreasonable duplication, for example through a secondary developer levy if already captured from the landowner's value uplift • how access to Australian Government funding will be conditional on meeting the set criteria.

Agreed in principle

The Australian Government agrees that all levels of government should consider opportunities to apply the economic principle that all taxpayers should share the benefit from an increase in the value of land that results when government investment of taxpayer funds in infrastructure increases the actual value of land.

Well planned and targeted new or substantially upgraded transport infrastructure will generally increase the attractiveness, and so value, of land in the affected catchments surrounding the footprint of that infrastructure, especially around stations. One way governments can maximise the economic benefits of this new infrastructure is to increase the density and/or supply of housing and commercial stock in these areas through land use rezoning. Value capture mechanisms that utilise zoning changes – such as the NSW SIC and the Australian Capital Territory's Lease Variation Charge – have the potential to extract value that is normally lost through value escape.

There is a range of evidence, including that presented to the Inquiry that infrastructure value capture tends to work more effectively in urban areas. This is due to benefits of projects on land values being geographically localised and economically concentrated in conjunction with higher population densities and greater demand. As population driven localised demands and economic concentrations dissipate, such as in regional areas, the potential for value capture also tends to dissipate, limiting the effective land value uplift potential. In particular, there is generally very limited land rezoning potential in the rural areas between regional towns and cities.

In order for all levels of government to work collaboratively, it is critical to identify what constitutes an equitable portion of uplift to recover and how to apply a mechanism on developers or land owners that can successfully and efficiently capture a portion of that uplift. One of the few ways a mechanism can be equitable is to be market based. This is achieved by allowing the market to compete and allocate a fair price for additional density which has been made possible as a result of an infrastructure project. It is also necessary to consider approaches that are not so restrictive and excessive that they hinder development or deter property investments. For example, a levy or tax, for which a value or price may be ascribed by a state government, may not necessarily be considered equitable by the private sector.

One approach to achieve a nationally consistent outcome would be for the Australian Government to require state, territory and/or local governments to investigate suitable value capture mechanisms as a condition of faster rail project funding. Such an approach will facilitate application of the charge in cases where rail corridors or segments are shown to potentially hold substantial value capture potential. The NFRA will work directly with jurisdictions to explore these opportunities on a case-by-case basis.

3	The Committee recommends that the Australian Government, in consultation with state, territory and local governments, establish a mechanism to secure the base value of land that can be reasonably expected to receive value uplifts resulting from a rail infrastructure project that will be wholly, or partially, funded by the Australian Government. This mechanism should be applied early in the planning stage and in advance of any project announcements.

Agreed in principle

Establishing a national mechanism to secure the base value of land (that could receive value uplifts from faster rail investments) would help set a clear baseline from which to determine potential value capture and innovative financing opportunities.

The potential to establish a national mechanism to secure the base value of land would depend greatly on the ability to accurately predict where and at what point in time to quantify this base value of land. While a national mechanism may be theoretically beneficial, it may also be difficult to achieve. It could also be a complex and costly process to subsequently measure the change in value in land either when it occurs or at set time periods to then determine what any uplift would be.

As with other long term developments, there is a timing disconnect between the cost of securing a corridor for future development and the benefits that ultimately accrue from this corridor preservation. Setting the base value of land too early risks including value uplifts that do not relate to the infrastructure that is subsequently built, while doing so too late could mean that speculators have already received a majority of land value uplift potential. Passive mechanisms, such as land tax, have the advantage of removing such timing risks.

In relation to when governments should secure a base value of land, there are a range of examples (for example, Western Sydney) where developers have taken a very long term view about future development opportunities and so banked land over the long term to maximise future development returns. Given the range of approaches used to value land across jurisdictions, it also may be difficult to arrive at a nationally agreed methodology for valuing land – especially if it required a state to apply a different methodology than it currently applies for other regulatory and charging purposes.

Notwithstanding these challenges, the Government agrees with the Committee that, as far as possible, any value capture mechanism must be agreed and applied early in the infrastructure planning stage and well in advance of any project announcements where practical to do so in order to enable full recovery of a just, equitable and fair portion of uplift that can then be shared between taxpayers and beneficiaries. This should help to guard against windfall increases in land value being won through speculative investment in land near proposed faster rail infrastructure investment.

It is important to provide certainty to the market and transparent mechanisms that are understood by industry are preferable. Ideally, any announcement of a large infrastructure project wholly, or partially, funded by the Australia Government would be conditional on zoning and base values being determined and identified between the relevant levels of government and at an agreed point in time, initially and then subsequently.