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Business Council of Australia

Mr John Alexander OAM, MP
Chair
Standing Committee on Infrastructure, Transport and Cities
PO Box 6021
Parliament House
CANBERRA ACT 2600

sent via email: ITC.reps@aph.gov.au

Dear Chair

I am writing to provide the Business Council's contribution to the House of Representatives Standing Committee's inquiry on *The role of transport connectivity on stimulating development and economic activity*.

Efficient provision and use of infrastructure, including transport infrastructure, is critical to meet the needs of a growing Australian population and economy.

Governments will increasingly face challenges in funding infrastructure, because fiscal capacity will be increasingly restricted and there has been limited adoption of user pays models.

There are various ways to fund required infrastructure, primarily government funding, user charges, developer contributions and value capture (which is the focus of this inquiry).

The Business Council supports diversification of funding sources for public infrastructure. We encourage the wider use of value capture initiatives, along with greater use of other funding sources like user pays, as long as governments undertake careful consideration of the appropriateness of value capture for the specific project in question.

Our position is elaborated further in a broader strategy for infrastructure funding and financing, which the Business Council published in 2012. Please find it attached.

Defining value capture

Value capture essentially broadens the notion of 'user pays' to 'everyone who benefits pays', thereby providing government with an additional potential funding stream.

Value capture allows governments to partly fund infrastructure investment with the proceeds or uplift in the 'site value' that is created by new infrastructure facilities. The appropriate value capture mechanism depends on the site, the nature of the value that is created by new infrastructure facilities and the most appropriate way in which to capture this value.

Some of the key success factors for value capture initiatives include: comprehensive, long-term planning strategies; genuine and robust stakeholder consultation; transparent governance frameworks; or incentives to attract private investment.[1]

[1] J Langley for AECOM and Consult Australia, *Value Capture Roadmap*, AECOM and Consult Australia, Sydney, June 2015.

Types of value capture

The Productivity Commission's *Public Infrastructure* report examined four types of value capture[2]:

1. betterment levies. These are increased taxes or rates on individuals or businesses in a given area, for the specific purpose of a single project, because they will benefit from the project (for example, through increased business or higher property prices).

   Betterment levies have been used for the Gold Coast light rail project.

2. tax increment financing. Governments use an expected increase in property tax revenue (resulting from the construction of the project) as security to finance the infrastructure. This involves hypothecating some future revenue from property taxes.

3. hypothecation of tax increments to an infrastructure fund. This option is similar to tax increment financing, but uses the returns from past projects to lessen the funds needed from consolidated revenue.

4. property development. The delivery of new infrastructure can allow for property development in adjacent space: for example, building offices above a train station. The sale of development rights, or the ongoing management of property, provides a source of revenue.

Risks to be managed

However, not every funding option will be appropriate for every project. In particular, the value capture methods listed above involve some risks. For example:

- Betterment levies can be poorly targeted and imposed on individuals or businesses who will not derive genuine benefit – or sufficient benefit to justify the levy – from the project.

  Without widespread support from those being levied, it can represent an arbitrary tax increase and detract from the economic benefits of the infrastructure project in the first place. This ultimately detracts from the jobs, income and services the community would otherwise derive from the infrastructure.

- Tax increment financing carries risk that the increases in property tax may not eventuate, or that the overall cost of borrowing may be higher than other types of debt.

- Hypothecation provides additional complexity to government budgets, and may result in additional inefficiencies.

These risks need to be considered in determining the best funding option for the specific project.

For any further information, please contact Simon Pryor, Executive Director, Infrastructure and Regulation, on 03 8664 2616 or simon.pryor@bca.com.au.

Yours sincerely

Jennifer A. Westacott
Chief Executive

Attachment/s: Securing Investment in Australia's Future: Infrastructure Funding and Financing

[2] Productivity Commission, *Public Infrastructure*, Inquiry Report No. 71, PC, Canberra, July 2014.