The Australian Commuter Trust

INVESTING IN AUSTRALIA'S TRANSPORT FUTURE

The Rail, Tram and Bus Union's proposal for a $30 billion infrastructure fund to kick-start investment in urban public transport and boost national economic productivity.

RTBU

May 2016

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Introduction

Australia is at a crucial moment in the development of its transport networks. The cost of urban congestion is an ever-increasing burden on our cities – increasing travel times for commuters and freight. Governmental failure to address poor planning is forcing more people into outer-suburban areas, where they have poor transport connections and are physically removed from services and employment.

Meanwhile, rail connections between regional centres and our major cities are poor at best. We have become a country deeply reliant on cars and planes. Regional centres that could and should be taking some of the population growth burden off the capital cities are stagnating.

Governments at all levels have recognised these problems, but few have made any serious attempt at solving them. At the Federal Government level, involvement in passenger transport has been sporadic. The Rudd / Gillard Labor Government put money on the table for urban rail projects, and put in place a robust policy framework to determine and evaluate infrastructure priorities. Much of that progress was undermined, however, by the Abbott Coalition Government's ideological opposition to passenger transport. While new Prime Minister Malcolm Turnbull has changed the Federal Government's previously hostile rhetoric around urban passenger transport, but has made little substantive change to policy.

The time has come for a new direction in the way Australia funds transport infrastructure. Australia's failing transport networks are a national problem, with national implications, requiring national leadership.

This paper synthesis research carried out for the RTBU by the National Institute of Economic and Industry Research (NIEIR) and SGS Economics and Planning. It outlines a new approach involving the establishment of a $30 billion Australian Commuter Trust supported by Government Infrastructure Bonds. It also outlines why State Government must embrace value capture methodologies to make transport infrastructure investments effectively pay for themselves over time.

This approach is eminently achievable in the Australian context. All that is required is the courage of leadership.

The Problem

According to the Bureau of Infrastructure, Transport and Regional Economic (BITRE), urban congestion is estimated to cost the Australian economy over $16 billion a year, and this expected to rise to up to $37 billion by 2030[1]. This includes the cost of wasted time spent by both people and freight in traffic jams, the cost of increased wear and tear on vehicles, and the cost to the community of increased transport-related pollution.

But other transport woes go further than this. Australian cities are under sustained pressure from continued population growth and government policies that have supported artificially high real estate prices. As result, our urban forms are changing rapidly. Areas on the peripheries of our cities are booming – but these areas are by nature disconnected from infrastructure, employment, and services such as public transport. Our cities have designed around ubiquitous access to private transport (ie cars), but in the 21st century the combination of high levels of car dependency and long commuting is having a significant impact on our quality of life.

In the 1960s, 60 per cent of people living in Australia's capital cities used public transport – mainly rail – to get to and from work. By the 1980s this figure had fallen to 30 per cent. Today it is less than ten per cent.

The decline in public transport usage over this period has mirrored a similar decline in government investment in transport infrastructure. In the immediate post-war decades, total transport investment stood at 70 per cent of all non-primary investment. By the 1980s this had fallen to 30 per cent and today it is less than ten per cent. Of course, an increasing proportion of even this investment is in roads, so the decline in public transport infrastructure funding is actually much steeper.

[1] *Traffic and congestion cost trends for Australian capital cities, Bureau of Infrastructure, Transport and Regional Economics (2015), p1.*

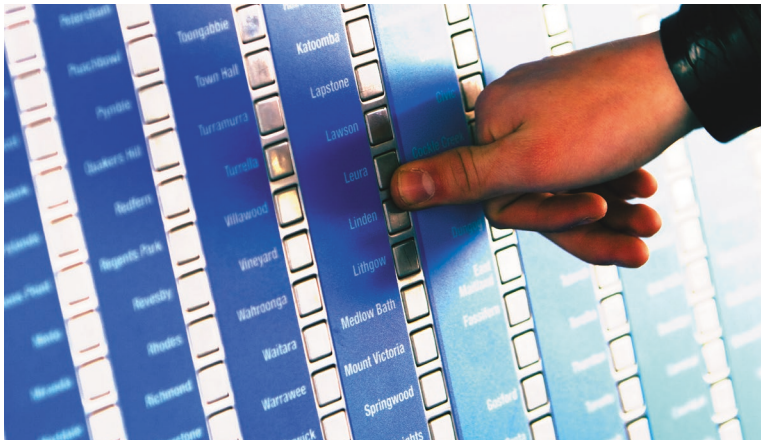
The Opportunity

A new approach to investing in transport infrastructure has the potential to unlock our congestion and unleash a new wave of improved productivity across the national economy. The National Institute of Economic and Industry Research (NIEIR) has estimate that:

> ***the under-provision of transport infrastructure capital stock is estimated to have lowered Australia's growth in labour productivity by 0.2 per cent per annum for the non-primary business sector over the 1984 to 2011 period.***[2]

Public transport also contributes to economic growth by facilitating the beneficial effects of agglomeration – the benefits that firms obtain by locating near each other. Mass transit system such as heavy rail maximise the benefits of agglomeration by moving large numbers of people to a consolidated location, such as the CBD of a major city, quickly and efficiently.

With a diminishing number of economic levers available to the Federal Government to stimulate productivity growth, investment in transport infrastructure has become the Government's best bet for achieving its productivity objectives.



NIEIR has also examined the economy-wide benefits of public transport investment. These benefits include:

- More efficient transport of goods and people;
- The social benefits of people having more time to spend at leisure in education, or with their families; and
- The environmental benefits of reduced transport-related pollution.

Considering these economy-wide benefits, NIEIR found that a $100 million public transport investment would generate around $400 to $700 million in economic benefits over the life of the asset.[3] That is, once all the direct and related benefits of more productive public transport are taken into account, there is a return of around four to seven times on the initial investment.

2 *Public transport infrastructure investment: An instrument for sustainable debt-funded fiscal policy, National Institute of Economic and Infrastructure Research (2013), p iii.*

3 *IBID, ppiv-v.*

The Missing Link

Despite the benefits of public transport, private investors are unlikely to see public transport as a viable investment as these benefits are dispersed across the economy, and therefore not easily harvested by financiers.[4] The missing link in public transport infrastructure funding is, therefore, finding a suitable method for capturing the economic benefits of new projects and generating a suitable return of investment.

The RTBU's 2015 research paper titled Innovative Funding Models for Public Transport in Australia tackled this question. The report, which was independently prepared by SGS Economic and Planning, found there are proven global models that can be amended to suit Australian conditions. They are generally gathered under the title of value capture.

According to SGS Economics and Planning, value capture:

> ***is based on the premise that government has a right to capture a reasonable portion of the additional economic and property value generated from new public transport infrastructure to fund these enhancements.***[5]

SGS Economics and Planning suggested two principal forms of value capture which could be considered for Australian conditions are:

- Tax Increment Financing (TIF) combined with bond issuances
- Business Rates Supplement (BRS).[6]

TIF enables governments to raise bond finance against the future additional tax revenue generated in a designated zone. It is a way of pulling forward funds to the construction stage with a bond issuance and then repaying bond finance with additional tax revenue that flows from the developed area. TIF has been used successfully in the US for over 50 years and has now been introduced in Canada and the UK. The redevelopment of Hudson Yards in New York is a notable example of the implementation of a TIF model in a large-scale urban proposal.

BRS is a levy applied to the rates bill for larger non-domestic properties within a geographic area that benefits from a project. A high-profile example of the use of BRS is the construction of London's Crossrail project. BRS sources will fund approximately 25-30 per cent of this UKP14.8 billion project. Melbourne's city loop rail tunnel was also partially funded by a levy in businesses with the Central Business District.

4 *IBID, p iv.*
5 *Innovative funding models for public transport in Australia, SGS Economic and Planning (2015), p7.*
6 *IBID, p4.*

A third type of value capture involves the sale or lease of land around transport corridors and/or the airspace above a corridor. For example, the Hong Kong metro system is operated as a highly profitable, vertically integrated rail and property business. Not only does MTR run the rail system, it also owns shopping centres above rail stations, and develops residential apartments along its rail lines. The company that operates the system, MTR Corporation, is majority-owned by the Hong Kong Government, ensuring that the financial benefits of new infrastructure and developments are captured and flow back to the people of Hong Kong.

The RTBU argues that government should be capturing a high percentage of the uplift from the value of their infrastructure investments, as this value would not be happening without those investments. Indeed, we argue that infrastructure investment should not create windfall profits for landholders who are fortunate enough to be in control of strategic real estate holdings. Value capture is therefore highly desirable from a social equity perspective, in that taxpayers who are funding the cost of development of transformative infrastructure projects, get to share proportionally in the economic benefits that are created. Moreover, once these revenue sources are created they should remain in place permanently, thus providing an important source of future revenue for governments.

Major cities such as Hong Kong, Singapore, London, New York and Chicago are all undertaking large-scale transit oriented development in urban renewal areas to respond to changing economic and job patterns.

It is important to recognise, however, that value capture is a not a magic pudding. Value capture offers a way to supplement more traditional government investment as a way to defray costs to tax=payers, and to ensure a more equitable distribution of the financial benefits accrued from infrastructure projects.

2 *Public transport infrastructure investment: An instrument for sustainable debt-funded fiscal policy, National Institute of Economic and Infrastructure Research (2013), p iii.*

3 *IBID, ppiv-v.*

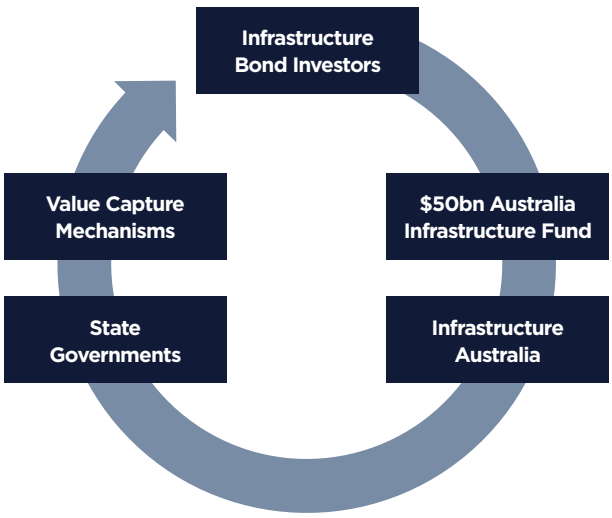
The Model

The RTBU calls for the establishment of a new $30 billion Australian Commuter Trust, backed by government bonds, to kick-start a new era of investment in public transport infrastructure.

Access to a fund of this scale would be a game changer for urban public transport across Australia, and would underpin projects such as:

- **The planned Melbourne metro rail tunnel;**
- **The Parramatta to Epping link in Sydney;**
- **A rail link to the new airport in Western Sydney;**
- **Brisbane proposed Cross-river rail project;**
- **The proposed Metronet projects in Perth;**
- **The proposed AdeLINK tram network; and**
- **A Bus Rapid Transit network for Hobart.**

The model would be similar to the funding model used for the National Broadband Network. The use of government bonds locks in funding at low interest rates, while the use of value capture methodologies would provide an income stream to ensure the fund was not only viable, providing a stable return to investors, but could grow over the long-term and become a self-sustaining vehicle for continued investment in urban infrastructure for generations to come.



The Australian Commuter Trust would be overseen by an Independent Board, and would supplement direct investment from State and Federal Governments.

Infrastructure Australia would play the role of independent adviser to the Fund, assessing applications for project funding from State Governments, and advising the Federal Government on infrastructure priorities.

State Governments would make applications for investment funding from the Australian Commuter Trust for specific projects.

Value capture methodologies - such TIF, BRS and developing land and/or airspace around new infrastructure – would be used to generate income in order to pay a return to the Trust.

Conclusion

Investment in public transport infrastructure in Australia has effectively dropped off a cliff over the past 30 to 40 years. A large reason for the drop in investment has been the failure of governments to recognise the productivity benefits of mass transit infrastructure. Countries around the world are now waking up to the need for transport reform, and the need to build more efficient cities.

This paper has outlined a new approach to funding mass transit projects in Australia, and therefore creating more efficient and better-connected cities. The creation of a $30 billion Australian Commuter Trust, backed by government bonds, will kick-start a new era of growth in the public transport sector and fuel productivity growth across the Australian economy.

The key to making the fund sustainable will be the adoption of value capture methodologies for new projects. Government-led value capture mechanisms are vital as they enable public transport projects to generate a return on investment.

Importantly, however, recommend that the proposed Australian Commuter Trust be responsible for no more than 30 per cent of any project's funding. Alternative funding mechanisms such as this should be seen as a way to supplement traditional government funding – not replace that funding. Public transport projects should therefore continue to receive funding from State and Federal Government infrastructure budgets – with this fund providing a proportion of construction costs in order to reduce the burden on taxpayers.

It's time to shake off the outdated and lazy approach of the past, and time for real leadership on urban transport at the Federal level. The RTBU calls on all parties to commit to the establishment of the Australian Commuter Trust and to pursue investment in priority public transport projects around the country.

Part B:
Priority Investment Projects

There are a number of major public transport projects around the country that could benefit from Federal Government investment and equity from the proposed Australian Commuter Trust.

Melbourne Metro Rail Tunnel

The RTBU believes that the Melbourne Metro Rail Tunnel is a prime example of a project that could be partially funded by the proposed Australian Infrastructure Fund

The project's business case states that Melbourne Metro is expected to create 3,900 additional jobs across Victoria, and increase Victoria's Gross State Product by between $7 billion and $14 billion.[7] It will also serve as a catalyst for development around the periphery of the CBD, particularly in North Melbourne, and facilitate greatly improved public transport access to the research, medical and education hub of Parkville.

The business case also looks at possible value capture opportunities, although it does not consider mechanisms such as business levies or tax increment financing, focusing instead on potential opportunities for Transit Oriented Development and related use of new infrastructure.

The possible value capture opportunities include:

- Over site developments at the proposed CBD North and CBD South stations;
- In-station retail and advertising;
- Use of new telecommunications infrastructure to drive revenue; and
- Redevelopment of surplus land at Arden as part of the broader urban renewal of the Arden-Macaulay Precinct.[8]

7 *Melbourne Metro Business Case, February 2016, p8*
8 *IBID, pp 249.*

Rail Link to Badgerys Creek Airport

The Federal and NSW Governments have committed to the construction of a new airport at Badgerys Creek in Western Sydney, but as yet no commitment has been made to building a heavy rail link to the new airport. While the NSW Government has committed to reserving a future rail corridor and the Federal Government has discussed the possibility of a fast rail link to the CBD, the RTBU believes that the airport needs to have a rail connection from the outset.

Moreover, the RTBU believes that a rail link to the new airport commence from the northern end of the proposed corridor, to provide the most efficient and direct service for the airport's catchment area of passengers and workers.

According to the State Government's plans, the area around the new airport will support much of Sydney's future urban growth. Indeed, the NSW Government's own discussion paper states that 495,000 new residents will be living in the South West Growth Centre and Camden by 2031, while an additional 200,000 jobs will be created in the Broader Western Sydney employment area.

It is clear that the proposed transport corridor will be more than just a route to the new airport – it will be a critical transport route for a huge number of people living and working in Western Sydney. This project would present clear opportunities for value capture – by capturing some of the uplift on land values along the rail corridor, and through the development of land and airspace in conjunction with new stations.

[9] *Transport for NSW. South West Rail Link - Public transport corridor protection discussion paper, April 2014, p9.*

Cross River Rail

Brisbane's Cross River Rail project has been on the drawing board for many years, but has sadly been a victim of political point-scoring and dithering. The RTBU supports the original proposal for Cross River Rail endorsed in the 2011 Environmental Impact Statement, which is best meets the needs of South East Queensland's public transport network.

The 2011 CRR EIS project consists of a new north–south passenger rail line, extending from Bowen Hills in the north over 18 kilometres to Salisbury in the south. It also includes two 10-kilometre-long parallel tunnels, extending from Victoria Park at Spring Hill to Yeerongpilly, via the Brisbane Central Business District (CBD), with 4 underground stations at Roma St, Albert St, Woolloongabba and Boggo Road.

The benefits of the original Cross River Rail include:

- addressing rail capacity constraints on the existing rail network;
- improving service reliability and travel times for commuters;
- providing opportunities for commercial development in and around new stations; and
- increasing the capacity for rail freight travelling to the Port of Brisbane.

The cost of the project was assessed as being approximately $6 billion.

The original Cross River Rail offers significant opportunities for the use of value capture, particularly in regard to property value uplift along the corridor. For example, there are opportunities for new development, urban renewal and value uplift at Yeerongpilly and to a much lesser degree at Dutton Park.

Perth Metronet Project

The growth of Perth has placed enormous strain on the city's road network. Population growth has far outstripped the growth of the footprint of the Perth rail network. The proposed Metronet provides an ambitious but achievable plan to extend the network and boost capacity, thus giving Perth residents a genuine a transport choice.

The Metronet project appears to be a viable candidate for the application of some value capture measures. The potential for relocating Midland Station, for example, could unleash major urban redevelopment opportunity.

Similarly, the development of a rail link to Perth Airport would be a major boost the airport precinct, and open up new development opportunities. The development of new stations would also enable opportunities for Transit Oriented Development throughout Perth.

The proposed Metronet project consists of:

- New North Circle route - including the Ellenbrook line and a connection between the Ellenbrook line and the Joondalup line;
- New South Circle route - including the Airport line, with new stations at Airport West, Perth Airport and Forrestfield, and a railway line connecting Thornlie station to the Mandurah line;
- Extension of the Clarkson line, to Yanchep;
- Extension of the Armadale line to Byford; and
- New stations on the Mandurah line at Atwell and Karnup.

AdeLink Light Rail network

The development of light rail in inner city Adelaide has been a remarkable success story. Since the historic Glenelg line was extended to Adelaide Station in 2007, Adelaide commuters have flocked back to trams.

The South Australian Government has now developed plans for an extensive light rail network across the city.

The RTBU has concerns about some aspects of the AdeLINK plan – particularly the potential conversion of existing heavy rail corridors to light rail. The Union will work with the South Australian government to address those concerns. Nevertheless the overall plan represents a step change in public transport in Adelaide, and will dramatically improve local public transport services.

The development of this network will bring significant benefits to local neighbourhoods across Adelaide. Value capture mechanisms may be a suitable way to partially fund this expansion.

Bus Rapid Transit networks for Hobart & Launceston

The issue of traffic congestion has become a serious concern for people in Hobart and Launceston. Improve local bus services remains the best option for tackling traffic congestion in both cities. In particular, the development of efficient express services would provide commuters with a viable alternative to private vehicles.

Most importantly, new express services must be introduced that are complementary to existing routes – not to replace local services that others rely on.

While there would be limitations in the use of value capture for local bus infrastructure improvements, there could, however, be opportunities for related transit oriented developments. In particular, park and ride hubs could be established offering secure parking and opportunities for retail and services for commuters.

The RTBU is calling for the Federal Government to work with the Tasmanian Government to develop a strategy for upgrading bus services in Greater Hobart and Greater Launceston including the provision of bus rapid transit services and investment in more park and ride facilities.

ACT Light Rail

The Capital Metro Project is a one of the most exciting transport developments in the country, and will change the way people move around the city of Canberra. Construction of Stage 1 of the ACT Light Rail network is due to commence soon, with services to start in 2018.

The first stage will go between the City and Gunghalin – and 12 km journey taking in Northbourne Avenue, Federal Highway and Flemington Road. A second stage of the light rail network in being planned, extending into the Parliamentary Triangle.

The prospect of applying value capture methods to stage 2 of the Canberra light rail project has already been canvassed in the media. It has been argued that the project will have a positive impact on land values, and will also lead to new developments along the route.

Federal investment in Stage 2 of this project is needed to ensure the full benefits of light rail in Canberra are realised – including reduced traffic congestion, improved travel times, and a more efficient city.

Inland Rail

The Inland Rail project is one of the most important infrastructure projects to be undertaken in this country since the construction of the Snowy Hydro scheme. The project has the potential to revolutionise the movement of transport north-south for the eastern states, and to contribute significantly to Australia's economic growth and productivity over the next 50 years and beyond.

The RTBU argues that the Inland Rail project should be a top-tier infrastructure priority for the Federal Government, however we also believe the current proposal needs to be re-worked to ensure it delivers a world-class outcome for Australia. The guiding principles for the delivery of Inland Rail should be:

- Inland Rail should be treated as transformational and intergenerational nation building project, delivering 21st Century performance and productivity benefits.
- The journey-time from one end to the other should be under 20 hours, enabling a return train consist to be completed in two days.
- The project should be constructed to North American Class I Railroad standards rather than ARTC mainline standards in order to support modern fast, efficient, high-productivity freight trains.
- The project should begin with early works from Toowoomba to Port of Brisbane corridor – the section that will deliver the most value to the national economy.

The failure of the Turnbull government to progress this project has been a major disappointment for the rail industry. While funding has been allocated for property acquisitions, the rail industry needs more than just a corridor reservation – it needs genuine a commitment to build this project sooner rather than later.

RTBU

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