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INQUIRY INTO TRANSPORT CONNECTIVITY IN STIMULATING DEVELOPMENT AND ECONOMIC ACTIVITY

The Council of Capital City Lord Mayors (CCCLM) welcomes the opportunity to provide comments to the Committee's inquiry into the role of transport connectivity in stimulating development and economic activity.

The CCCLM represents the interests of the Lord Mayors (and ACT Chief Minister) of Australia's eight capital cities. Australia's capital cities drive national economic growth, innovation and creativity.

The CCCLM recognises the importance of transport connectivity in delivering economic and social benefits to Australia's cities.

In recent years local governments have seen funding through grants and subsidies reduced which has put increased pressure on the capital and major cities to deliver infrastructure and services, therefore CCCLM is supportive of developing alternative equitable and sustainable funding and financing models.

The benefits of transport connectivity

It is well established in spatial planning and economic geography that improving transport connectivity, specifically improving *accessibility*, is likely to result in an increase in land and property values. This effect is widely understood as a main driver of urban form and development viability, whereby land in more accessible locations will attract a higher price, leading to a higher yield or higher-value use of that land.

In urban areas, access to employment is highly valuable, and therefore transport interventions that improve people's access to jobs are likely to result in significant property value increases. The 'land bid rent curve' best explains this effect, as shown below:

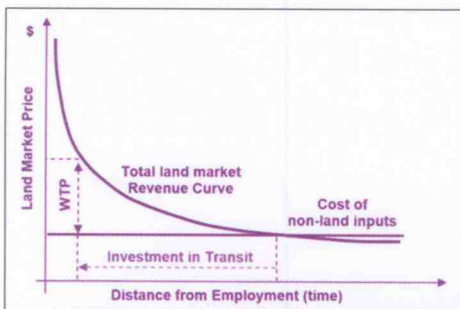


Fig. 1. Land Bid Rent Curve, McIntosh et al, 2014. (Adapted from O'Sullivan, 2012)

This interplay between land use and transport infrastructure shapes how cities are formed and how they function.

For example, in Perth this effect has been clearly observed in the delivery of the Mandurah rail line, in 2007. According to McIntosh et al, land values within a 400m catchment of rail stations increased by 40% due to the accessibility provided by the new rail system (McIntosh et al 2014, pg. 16).

The value of transport connectivity is important to the business community. Improving transport connectivity and accessibility expands the labour pool from which businesses can draw from, enabling them to attract talent from a wider, more diverse labour market. It also contributes to improvements in business-to-business interactions, whereby trade and communication between firms is improved, resulting in greater productivity and a lifting of the economic output of those firms.

Value capture

There are many approaches to value capture, however in essence value capture seeks to identify and quantify revenue streams that can contribute to project funding, and develop mechanisms which can collect this revenue.

In essence, value capture changes the funding focus from 'user pays' to 'beneficiary pays', where beneficiaries can include industry, developers and property owners.

For value capture to be most effective, the potential increase in values and the beneficiaries need to be clearly identified from the beginning of the development of the project's framework. It is critical that any value capture framework incorporates principals of equity and fairness.

The roles of government

All levels of government in Australian cities are involved in the management of land based fiscal tools (such as land tax, property tax, stamp duty, business and residential rates, etc). Therefore it is important for all levels of government to collaborate on potential value-capture mechanisms, and how they might be implemented in each city.

Local Government is uniquely placed to contribute to the design of value-capture mechanisms, given its knowledge of the local economic and planning context in which such mechanisms might be applied. Local Government is also well suited to act as an interface between stakeholders and other tiers of Government, as it is the closest tier of Government to the community.

In particular Local Government has a role as the primary place-makers in the development of major transport programs, especially where value capture is implemented, or there is significant density uplift expected due to the impact/benefits to local communities.

As a consent authority, local government has a significant role in rezoning land and providing expert insight and advice about community needs and opportunities. Decisions made now on development should consider future opportunities.

The structure of urban governance in many Australian cities places the responsibility of metropolitan planning and infrastructure design on the State/Territory Government. Therefore, State/Territory Government planning and transport authorities are likely to play a central role in the establishment of value-capture mechanisms tied to city-wide infrastructure projects.

Brisbane City Council is an example of a much wider reaching local government authority, covering an area of over 13,000 km², in contrast to Perth (8km²), Melbourne (36km²) and Sydney (25km²). This may simplify

the design and implementation of value-capture mechanisms, depending on the role and involvement of the local government sector.

It is critical that tiers of government work together to plan for and implement transport and urban domain changes early to respond to the land use change, and appropriately influence uptake of desired travel behaviours and respond to emerging market preferences as a result of new or released trip generators.

In addition to sometimes directly funding the core project, local governments often enhance the value of major transport infrastructure projects by funding and delivering ancillary infrastructure and services, including the provision of pedestrian and cycling links and streetscape/landscape improvements, as well as changes to urban planning instruments and building codes. It is important that the benefits of value capture are appropriately shared with local government to reflect this contribution.

State/Territory and local governments could work together to develop overarching place-based strategies for new hubs created by the provision of infrastructure such as high speed rail. Communities need to be able to access the infrastructure - especially in outer metropolitan areas to connect with jobs and services.

Commonwealth and State/Territory Governments in particular would need to work together to understand the impact that the development of a major transport program would have on other major infrastructure programs (for example, the development of Metro and WestConnex in Sydney with potential alignment for high speed rail) to effectively coordinate services.

Concluding comments

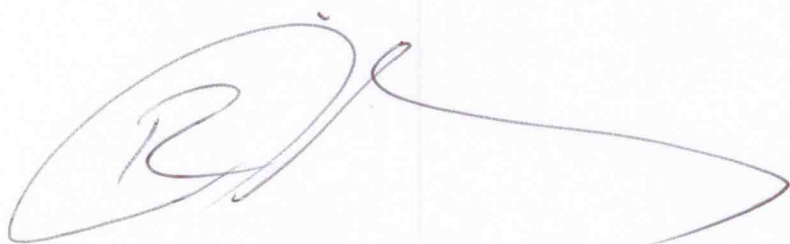
Transport connectivity, and accessibility, is fundamental to the development and economic activity of cities. There is an opportunity to better reflect the way in which transport infrastructure is financed in Australia.

Examples of where value capture has been utilised in Australia's capital cities are outlined in the appendices to this submission.

There are a number of options in addition to value capture to fund the infrastructure of our cities. In 2013 CCCLM engaged Ernst & Young to prepare a comprehensive report identifying the infrastructure financing solutions for Australia's Capital cities. This report is at Attachment A.

Thank you for the opportunity to provide a submission to the inquiry. If you wish to clarify any matters raised in this submission please contact the CCCLM secretariat on 02 6285 1584.

Yours sincerely

A handwritten signature in black ink, appearing to be 'Richard Lindsay', written in a cursive style with a long horizontal flourish extending to the right.

Richard Lindsay
EXECUTIVE DIRECTOR

APPENDICES

Brisbane

Brisbane City Council has provided a separate submission to this inquiry.

Canberra

The first stage of Canberra's light rail network will be delivered by a world-class consortium, Canberra Metro, sooner and with a capital cost lower than earlier estimated. Canberra Metro will complete construction in late 2018 and begin operations in early 2019

The ACT Government has considered but not utilized the use of value capture mechanisms with the Capital Metro Project. The Capital Metro Business Case neither relies upon, nor makes recommendations regarding, value capture options. It is simply noted that Capital Metro may generate 'value capture' opportunities.

Capital Metro is expected to generate economic benefits of almost \$1.2 billion over 30 years. For every dollar invested we anticipate our community will obtain \$1.20 in benefits. The unique tenure arrangements in the ACT (the presence of leasehold tenure as opposed to freehold tenure), coupled with the sizeable quantity of land along Northbourne Avenue controlled by the ACT Government, represent a unique opportunity for land value capture.

The positive impacts on property values along light rail corridors are well documented, noting that property value uplift may occur during construction and following commencement of operations.

Value capture options on light rail corridors have been considered with value capture plans drafted by the ACT government; however there has been no further action to implement value capture with Capital Metro at the moment.

The Capital Metro Business Case set out a number of value capture mechanisms available to the ACT Government, including:

- Rates, land tax, lease variation charges, direct levies and a new 'district levies' tax.
- The Business Case recommended that the ACT Government consider value capture matters separately, noting that the main beneficiaries of transport projects are property owners nearby, users of the transport, others on the roads who benefit from less congestion, land developers, businesses and the general public.

The full Business Case is at Attachment B.

Either active or passive value capture methods can be used in the future depending on the consensus of business, government and the community as a whole. Passive value capture includes allowing value capture tax mechanisms to become a part of a government's usual tax base. Active value capture can involve various measures to increase the share of value uplift that is captured. Examples of active value capture include mechanisms such as increased and targeted lease variation charges.

Melbourne

The City of Melbourne is providing a separate submission to this inquiry.

In 2014, the City of Melbourne commissions Dr Chris Hale to undertake research into policy options for funding transit infrastructure. The Report is at Attachment C.

Perth

The City of Perth has identified the need to explore the potential of value-capture mechanisms for transport infrastructure financing through its (draft) Transport Strategy (to be presented to Council in March 2016). The City plans to liaise with the State and Federal Government, private sector and academia to establish how infrastructure delivery within the City of Perth might be fast tracked by applying value-capture techniques.

The City's interest in this topic stems from the understanding that *'value capture theory is now well-developed, and it rests ultimately on the recognition that major urban rail exercises, especially those serving the CBD and inner city, generate profound economic benefits'* (Hale, 2014. pg.1). Given this, and the City of Perth's vision to be an *'accessible city'* where *'local and global businesses thrive'*, there is merit in further investigating value-capture opportunities for Perth (City of Perth, 2013).

Recent work commissioned by the City of Perth analysing the accessibility provided by Perth's public transport network demonstrates that there is a pressing need for significant expansion of Perth's public transport network (Parsons Brinkerhoff and Curtin University, 2015). The strength of the City of Perth as an employment centre, as well as a civic, retail, recreational and cultural hub, will require excellent accessibility in the future. In order to finance the required infrastructure, it is likely that new and innovative mechanisms will be needed. This has been underscored in recent years as various political and macro-economic factors have reduced the State and Federal Governments' ability to fund needed transport infrastructure (eg. MAX Light Rail).

There is also a growing body of evidence highlighting the success of various value-capture mechanisms that have been implemented in cities around the world. Hale (2014) articulates how lessons from international examples can inform the development of locally viable value-capture mechanisms for Australian cities.

Whilst value-capture mechanisms may yield various benefits, there may be negative implications on development viability depending on the scope of the mechanisms, who they are focused on and how they are implemented. Any additional cost to development or land use is likely to impact demand, and potentially reduce the viability of development within an area affected by the introduced cost. Therefore it is vital that a balance is found between the potential benefits and dis-benefits of value-capture mechanisms.

It is hoped that with more detailed consideration of potential value-capture mechanisms in Perth, applicable and viable options for transport infrastructure funding can be further progressed.

Sydney

Attachment D is a case study of Sydney's Green Square project, which outlines the package of funding mechanisms the City of Sydney utilised to deliver infrastructure.