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Value Capture and Infrastructure Funding

Engineers Australia's response to the
Government's discussion paper

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Introduction and overview

Engineers Australia is the peak body for the engineering profession in Australia. With over 100,000 individual members across Australia, we represent all disciplines and branches of engineering. Engineers Australia is constituted by Royal Charter to advance the science and practice of engineering for the benefit of the community.

Engineers are members of the community and share the community's aspirations for Australia's future prosperity. Historically, most improvements in the standard of living of Australians have been driven by productivity improvements which in turn have been enabled by the availability of infrastructure services. The demand for infrastructure services is closely related to the size of Australia's population and population growth. On average, during the past five years, Australia's population has increased by the population of Canberra each year, yet real public infrastructure development has fallen since 2011-12.

Against this background, Engineers Australia argues that enhanced investment in economic infrastructure is long overdue and we welcome the opportunity to respond to the Australian Government's discussion paper "Using value capture to help deliver major land transport infrastructure: roles for the Australian Government".

Engineers Australia believes that the case for including value capture in the range of mechanisms used to fund infrastructure is over-whelming. We agree with Infrastructure Australia that value capture should routinely be included in infrastructure planning deliberations. Value capture is not simply another funding mechanism, but offers a mechanism to better integrate the contributions of different levels of government and the private sector through well-structured and fair partnership agreements. However, value capture is not a panacea and other funding options continue to be relevant.

To fully take advantage of value capture several weaknesses in present infrastructure planning, development and governance arrangements need to be overcome. These include poor integration of long term land use and infrastructure planning, infrastructure decisions persistently subjected to short term political factors instead of long term community benefits and costs, meaningful community and stakeholder engagement to ensure infrastructure built is what is wanted and valued, and Commonwealth-State relationships that often become dysfunctional. The last of these factors can be overcome—so far as infrastructure is concerned—by leveraging Commonwealth funding strictly in accordance with rigorous evidence based analyses against a bi-partisan long term horizon.

The importance of long term planning

In most Australian jurisdictions infrastructure and land use planning continue to function independently, with infrastructure planning often seriously lagging. This creates the pressures that short term politics responds to and often results in poorly developed or selected infrastructure projects. Integrated long term land use and infrastructure planning has been in the political debate for some time, but practical implementation that is truly independent of short term political and election cycles appears little closer.

Engineers Australia has consistently advocated for the establishment of integrated infrastructure and land use planning organisations in line with recommendations made by

Infrastructure Australia and the Productivity Commission. We believe that planning organisations should produce long term plans for urban and regional areas that incorporate comprehensive infrastructure service standards. Decisions to develop infrastructure should be evidence based with transparent publication of full life-cycle business plans and supporting information and analyses, including benefit-cost analyses. All projects that proceed to implementation should be subject to post-construction evaluation.

Some states and territories have changed institutional arrangements towards these directions, but there appears to be a reluctance to fully embrace them. Infrastructure development continues to be subject to short term political cycles and election campaigns continue to feature offers to implement specific projects as inducements to voters in particular electorates, undermining efforts to improve the analytical basis for infrastructure decisions and priorities. It is common for many such projects to not be part of formal infrastructure plans, even local ones, and typically most have not been subjected to benefit-cost analyses.

The discussion paper emphasizes the role value capture can play in funding transport projects to overcome runaway congestion in Australia's cities. We agree that value capture has an important role to play, but note that the problem to be solved is often caused by the failure to undertake integrated land use and infrastructure planning in the first place. Given past experience, it is vital that future projects do not make the same mistake and provide the platform to maximise the potential of value capture.

Value capture techniques will inevitably yield suboptimal results when there is uncertainty about the longevity and durability of an infrastructure project. Complaints by owners of properties that value sharing is just another tax are more likely to resonate with the community when there are doubts about how long an infrastructure asset will provide promised services before requiring upgrading or redevelopment and misgivings about infrastructure priorities.

Engineers Australia supports the Commonwealth's principles for innovative funding, especially as they relate to a more expansive role for the private sector. Their strength lies in the potential that Commonwealth funds be used to leverage contributions from state and local governments and from the private sector in fair and sensible partnership arrangements. To achieve this, long term planning and transparency are essential and we believe that the funding principles should be strengthened in this regard.

Infrastructure Australia has comprehensively reviewed specific forms of value capture and notes that each has specific benefits and risks that suggest a case by case approach may be most effective¹. This review cautions policy makers about the difficulties of estimating value uplift. This caution reinforces our views about the importance of long term planning. It also draws attention to the need to develop a less complex and more sustainable way of garnering value uplift through tax reform. To date only one Australian jurisdiction, the ACT, has acted to eliminate less efficient taxes such as stamp duty to be replaced by a more general land value tax which is more amenable to the application of value capture. Although this direction was undertaken with more general tax reform objectives in mind, it will provide the ACT government with the capacity and flexibility to move forward on land value uplift to fund infrastructure development.

¹ Infrastructure Australia, Capturing Value, Advice on making value capture work in Australia, December 2016, www.ia.gov.au

In summary, Engineers Australia supports inclusion of value capture as an infrastructure funding mechanism within what Infrastructure Australia calls a “beneficiary pays” framework². We believe that a move in this direction will be more beneficial within an integrated long term land use and infrastructure arrangement. Given that greenfield transport development in Australia’s cities is unlikely, we believe that the Commonwealth should leverage its infrastructure funds so that new infrastructure projects are developed in such a setting with appropriate regard for the situation at hand and desired future directions.

Community and stakeholder engagement

Inclusion of value capture into a robust “beneficiary pays” framework is highly dependent on successful community and stakeholder engagement. At present, there is a widespread perception that “community and stakeholder engagement” is code for what is effectively marketing of pre-determined “infrastructure solutions”. Reasons such as insufficient time, excess costs, the issues are too complex etc are typically advanced to support over-riding community and stakeholder concerns. As a result, infrastructure decisions can become needlessly contentious which ends up eroding support for projects and undermining the introduction of changed funding mechanisms.

Engineers Australia believes that infrastructure decisions should be taken in the public interest and well-being. Consistent with our views about the importance of integrated long term planning, we believe community and stakeholder consultations should occur at planning stages and not be confined to project assessment and delivery stages. Furthermore, consultations should begin with consideration of future infrastructure challenges and their potential solutions in a transparent framework based on infrastructure service standards.

All too often, community and stakeholder consultations simply collect views and opinions, often when the shape of final decisions has been determined, if not announced. Infrastructure projects have the capacity to affect people’s rights and entitlements, their quality of life and the capacity to significantly change the present environment in which people live and work. More fulsome community and stakeholder engagement builds trust and credibility of outcomes and enhances the potential for successful outcomes.

In the past, calls for genuine community and stakeholder consultations have often been ignored. However, recent political outcomes demonstrate the costs of this approach. Introducing value capture techniques into a “beneficiary pays” framework for infrastructure funding is far from simple, as the Infrastructure Australia analysis demonstrates. Unless, the community and stakeholders understand all the issues involved there is a serious risk that efforts to introduce value capture will go the same way as efforts to introduce PPPs as a means of expanding infrastructure development: just another fad with some, albeit temporary, results.

Engineers Australia strongly urges genuine community and stakeholder consultations to complement long term integrated planning of land use and infrastructure. This will be a means of building a sustainable environment in which value capture can be introduced as an element of a beneficiary pays framework for funding infrastructure. Once again, redevelopment of cities and regions where there is pre-existing infrastructure should not be an impediment to change if new proposals are couched in the appropriate long term planning context.

² Op cit, p6.

Commonwealth-state arrangements

At the core of Commonwealth-state relations in Australia is a substantial vertical fiscal imbalance in favour of the Commonwealth. In contrast, the states and territories, and sometimes local government, are responsible for much of Australia's transport infrastructure other than national roads and are responsible for the majority of funding instruments.

Until the formation of Infrastructure Australia, Commonwealth involvement in infrastructure development largely took the form of specific purpose grants to states and territories for agreed infrastructure projects, mainly roads, but including rail projects in the last decade. Although there is considerable focus on roads and highways that have national significance, included in the specific purpose grants are programs that have little to do with national responsibilities. These include programs such as road maintenance, black spots, bridge renewal, roads to recovery and untied local roads grants. These programs are indicative of problems that flow from vertical fiscal imbalance more generally and the notion of "competitive federalism" that we believe must be dealt with in order to solve Australia's infrastructure under-investment.

Infrastructure Australia has had some success in moving infrastructure decision-making onto an evidence based foundation, especially the rigorous use of its investment framework, including benefit-cost analysis. This success is reflected in the establishment of counterpart organisations in several jurisdictions with similar mandates. Engineers Australia has consistently supported these developments, but we note the absence of bipartisan support for the long term stability of these organisations. Long term infrastructure planning and development cannot be assured when key institutions involved are subject to partisan change whenever there is a change of government, whether at Commonwealth or state and territory level.

The present Commonwealth infrastructure policy is based on Infrastructure Australia's national infrastructure audit, which resulted in its Australian infrastructure plan, and the Smart Cities Plan, both released last year. Engineers Australia supports almost all the proposals advanced in these plans, but there is a substantial gap between these proposals and the practical realities of Commonwealth-state funding arrangements.

Engineers Australia acknowledges the capacity to leverage Commonwealth infrastructure funds to enhance urban infrastructure planning and development and we also acknowledge the value of the "City Deals" concept. Given that there has been little change in Commonwealth-state relations over several decades, it is appropriate to begin the process of improved infrastructure arrangements somewhere. However, we are concerned that the improvements are insufficient to realise the full potential of value capture as an additional infrastructure funding source. We are also concerned about the interaction between planning and community consultation arrangements and Commonwealth-state relationships.

Conclusion

Including value capture as an additional funding source will assist more essential infrastructure to be developed, but its full potential is at risk without attention being paid to other factors that currently inhibit efficient roll-out of infrastructure.

The status of Commonwealth-state funding relations and the absence of bipartisan support for the long term stability of infrastructure planning and development institutions is one of the most significant. Also highlighted in this submission is the importance of stakeholder and community engagement and the complementarity between this and long term infrastructure planning and development.

Commitment at all levels of government to long term infrastructure institutional stability, independent of short-term political cycles, is essential to ensure that infrastructure that is delivered is what the community values.



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