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19 December 2013

Public Infrastructure Inquiry
Productivity Commission
LB2 Collins Street East
Melbourne VIC 8003

Dear Commissioner Harris,

The Committee for Melbourne has long held the remit to enhance the future prospects of Melbourne. Founded 28 years ago, the Committee is a non-partisan membership-based organisation that looks strategically at issues that impact beyond the short-term electoral cycles.

Australia has a significant challenge ahead to ensure infrastructure provision keeps pace with growth and helps to lift productivity. The Committee has been looking very closely at how this issue impacts the growth and prosperity of Melbourne since 2010 and has run several member-led Taskforces and policy reviews into these areas.

It is therefore our pleasure to submit the relevant components of this work to the Productivity Commission's Public Infrastructure Inquiry and to contribute ideas towards the improvement in the procurement of infrastructure for Australia.

Regards,

Kate Roffey
Chief Executive Officer
Committee for Melbourne

COMMITTEE FOR MELBOURNE

Productivity Commission
Public Infrastructure Inquiry

Committee for Melbourne submission

December 2013

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1. Introduction

1.1. About the Committee for Melbourne

The Committee for Melbourne (the Committee) is an apolitical not-for-profit, member network that unites a cross-section of Melbourne's leaders and organisations to work together to enhance Melbourne's economic, social and environmental future.

Our aim is to ensure Melbourne's challenges and opportunities are tackled and grasped in ways that keep our city vital, inclusive, progressive and sustainable for the long-term.

Our members represent over 150 organisations drawn from the city's major companies, academic institutions and civic organisations across a broad range of industries. We represent no single interest and seek to challenge conventional thinking and develop innovative policy that continues to enhance the world's most liveable city.

1.2. Structure of this submission

This submission presents a range of material that the Committee has produced over the last few years relevant to elements of the inquiry scope.

While the submission does not intend to address the Terms of Reference directly, it does provide insight to the issues of funding and financing of infrastructure.

The Committee has provided the following documents for consideration of the inquiry:

1. Discussion Paper on Funding & Financing Infrastructure in Victoria (2012)
2. Moving Melbourne (2012)
3. Excerpt: The Parliament of Victoria's report on the Inquiry into local economic development initiatives in Victoria (July 2013)

1. Discussion Paper on Funding and Financing Infrastructure in Victoria (2012)

Discussion Paper on Funding and Financing Infrastructure in Victoria

Purpose

This paper provides a discussion of two issues: the rate of expenditure on infrastructure in Victoria and impediments to the use of private sector finance.

Background

Victoria's infrastructure requirements are well-documented. There are urgent requirements in freight and passenger transport and social infrastructure in growth corridors. Together, State and local government are searching for the means to provide this infrastructure. The State government, and to a lesser extent local government, is investing in infrastructure but the rate has lagged behind the requirement.

The detriment of inadequate investment in infrastructure is also well-documented, specifically the constraints on economic activity, lower productivity and competitiveness, reduced amenity for users, and declining social equity. Rather than conserving resources, low levels of investment impose substantial costs and ultimately Victoria's economy will be smaller than it otherwise would be. Delaying investment in the legacy stock also introduces higher whole of life costs because assets need to be intensively maintained or renewed to extend their useful lives.

Funding and Finance – No Magic Pudding

The distinction between finance and funding needs to be clear: a funding source must be present to support finance. This is a critical point because the availability of capital or financial products does not obviate the funding requirement. There is no magic pudding. While there are specific issues – and opportunities – with funding and finance, they are not the same. Accordingly, this paper addresses the need for change and innovation in both funding and finance.

Funding

Funding for infrastructure in Victoria is ultimately sourced from the community. Funding can be sourced directly from users of infrastructure or indirectly through taxes and charges (or rates for local government). The willingness of government and users to commit funds ultimately determines the level and pace of development, and this is discussed below.

Inadequate Expenditure

It is difficult to estimate the right level of expenditure on infrastructure and difficult to measure the performance of the existing stock of infrastructure. This is because expectations and preferences differ across the community, and as a result, assessments are subjective. However, there is a consensus view that over the last two decades the level of expenditure on new and existing infrastructure has been too low. There is anecdotal evidence of demand for higher levels of amenity from infrastructure across sectors such as transport, health, education, energy and water, and recreation. This evidence suggests that increasing expenditure to augment the current stock is the preference of most in the community. Engineers Australia has argued that "critical aspects of Victoria's infrastructure are barely adequate for current needs" and that "funding commitments are largely inadequate to support...renewal and replacement."[1]

The medium-term fiscal strategy in the 2013 budget commits to infrastructure spending of 1.3 per cent of gross state product (GSP) as a five year rolling average. Nominal GSP in 2013 is forecast to be $340 billion, suggesting a commitment of approximately $4.5 billion per annum.

Shift to User Pays

The expenditure required for some types of infrastructure can be sourced directly from users, either wholly or in part. A direct relationship between providers and users offers scope for infrastructure to be provided solely by the private sector or through concession-type arrangements. Energy assets are an example of the former and toll roads an example of the latter. In Australia, direct user charging is limited and governments have taken a conservative approach to introducing new user charging regimes. This is in part a cultural issue with origins in the post-war welfare state, and its principle of social equity through universal access. However, a legacy of this culture is a lack of understanding in the community of the costs of infrastructure and an absence of price signals to shape behaviour by users. As a result, it is difficult for private and public sector providers of infrastructure to determine a community's willingness to pay for different services and levels of amenity, which is inherently inefficient.

There are opportunities to extend user charging and the visibility of costs and benefits more generally. This could generate a cultural shift to using price signalling to drive behaviour. Public transport is an obvious example of the tension between user charging and government funding, and of the potential to induce changes in behaviour by introducing mechanisms which lead to users to pay for the benefits they derive and the costs they impose. There are other examples in the education, health and waste sectors. Aside from changing demand profiles, there would be greater opportunities to deploy private sector finance to new projects without substantive public sector financial support. However, while a shift toward price signalling is desirable, it will be important to address the impact of change on social equity, or in other words, to recognise the cost of achieving social outcomes. There is likely to be scope to transplant the equity embedded in the taxation system to mechanisms of user charging, and this would support governments selling the approach to the community.

[1] Engineers Australia: *Infrastructure Report Card 2010 Victoria*, February 2010

In addition to direct user charging, there are opportunities to extract the expenditure required for infrastructure from other beneficiaries of it. This approach is similarly based on the principle that those who benefit from infrastructure should contribute to its cost. For example, direct charges from network users, who benefit from infrastructure indirectly, or levies on private parties who capture a portion of the value created by infrastructure through higher property or other commercial values.

Efficient Expenditure

The State should continue to focus on minimising the process and administrative costs associated with deploying a given amount of expenditure on infrastructure. Victoria has implemented a range of initiatives in this area, such as the Gateway process, and continuing to pioneer and support them is essential. In this regard, the Public Accounts and Estimates Committee are examining the 'integral need for public sector managers overseeing significant infrastructure projects to possess appropriate skills and expertise' and will report in December.[2]

Financing

Infrastructure can be financed by the public or private sector. A brief discussion of salient issues is below. It is important to acknowledge that the weight of finance, even if mobilised for infrastructure, is alone not a solution to the infrastructure backlog. The community, through users, beneficiaries or government, must be willing to allocate enough expenditure to pay for projects.

Public Sector Financing

Over the last two decades, the state (and federal) government have relied on surplus recurrent revenues to finance their expenditure on infrastructure. They have actively minimised the use of debt. This approach has reflected a short term focus on generating cyclical budget surpluses and maintaining credit ratings. It is important to recognise that this approach is driven by political imperatives rather than sound economics. Many commentators in the infrastructure debate have pointed to the weaknesses of the approach, which has the effect of prioritising short term financial considerations over long term economic outcomes. It has deferred projects which offer net economic benefits and which could expand long run economic capacity. Government in Victoria (and elsewhere) has the balance wrong and there is a role for advocates to deliver this message. Governments should place more emphasis on structural surpluses over the economic cycle.

The recent approach to fiscal policy has entrenched an aversion to debt, and perception that only very low (and shrinking) debt levels are sustainable. As noted by many commentators, debt funding avoids the need to wait for surpluses and equitably spreads the cost of long-life infrastructure across generations. Victoria's balance sheet is strong by any measure: specifically, it has a very low debt to GSP ratio (6.5% in FY 2012), which is a primary measure of its capacity to repay debt. Governments need to move away from debt aversion and achieve a more sensible balance between revenues and debt. Some have proposed debt raisings 'for-infrastructure-only' as a way to support governments to sell this message to the community.

[2] Parliament of Victoria: Public Accounts and Estimates Committee. Inquiry into Effective Decision Making for the Successful Delivery of Significant Infrastructure Projects. Terms of Reference received from the Legislative Assembly on 5 May 2011.

- In FY 2013, Victoria will spend approximately $1.7 billion servicing debt and finance lease costs.

There is a role for advocates to encourage the Victorian Government to target a sustainable level of debt over the medium term, even if it is not consistent with a stable AAA debt rating. (In most scenarios, it is very likely to be consistent.) It is important to note that foregoing investment in economically productive infrastructure to preserve finances today risks degrading our productive capacity and social capital in the long run, which increases our vulnerability to external shocks. Private sector investors, including superannuation funds, strongly support expanding long-term government borrowing to fund infrastructure, for reasons of equity and certainty.

Private Sector Financing

There is a long history of private sector financing of infrastructure in Victoria. Private investors have demonstrated a willingness to participate in a wide range of financing solutions in respect of government infrastructure including build-own-operate-transfer projects, availability-based social infrastructure projects, and the privatisation of public sector assets and businesses.

However, the Global Financial Crisis (GFC) reduced the depth and appetite of the financing market, and it has not fully recovered. The crisis was a catalyst for the investigation, and in some cases the use, of innovative financing solutions and hybrid financing models, which enhanced Australia's reputation as a mature and sophisticated infrastructure market. The private sector, though slimmer, continues to be hungry for infrastructure transactions. However, a range of issues persist in the market which are impeding to a degree their rate of participation, efficiency of offering, and breadth of innovation. These issues are discussed below.

Encouraging Superannuation

Many politicians and commentators have suggested that superannuation funds should increase their participation in financing infrastructure. They point to the weight of funds under management and the match between long run investment horizons and long-life infrastructure. While this alignment does exist to an extent, there are other complex issues which need to be recognised, and which are discussed below.

In-house Skills

Infrastructure as an asset class is highly complex and requires specialised skills to carry out commercial, financial and tax due diligence prior to making investment decisions. The shortage of specialist expertise has been cited in recent years as a barrier to investment in infrastructure by superannuation funds. Although superannuation funds often use specialist asset consultants, they still require a certain level of in-house commercial understanding from the fund managers through to trustees. A number of superannuation funds are addressing this concern by increasing the skill level of in-house resources. However, as noted by Infrastructure Partnerships Australia, superannuation funds will only be motivated to retain in-house infrastructure expertise and move away from using consultants if there is a functional and transparent infrastructure market.

The more significant impediments to increased participation by superannuation funds are:

- the lack of clear pipeline and funding commitment; and
- the lack of suitably structured projects.

No Clear Pipeline

The infrastructure industry continues to call for a committed and stable pipeline of infrastructure projects. However, governments, including in Victoria, have not provided a clear and committed pipeline beyond the short term. Long-term policy intent across portfolios is typically non-committal on the scope and timing of major projects, meaning current guidance is often treated as a 'wishlist' rather than a genuine programme for procurement and delivery. Superannuation fund managers express the view that inadequate planning by government as sponsor, combined with poor integration between state and federal planning and approval processes, leads to an unacceptable level of risk regarding the commitment to, and timing of, government sponsored projects. This complicates their decision to invest in resources to finance projects.

The lack of a pipeline is exacerbated by political risks and the vagaries of the electoral cycle. That is, a lack of clarity about the timing of projects and in other states the cancellation of large projects during the procurement process. This has increased the level of uncertainty with respect to government commitments and future projects. A related issue is a lack of clarity over long term policy frameworks, such as the implementation of carbon pricing.

Lack of Suitably Structured Projects

Superannuation funds invest for the benefit of their members and aim to earn a return commensurate with their assessment of risk. However, infrastructure project risk profiles are not necessarily designed to encourage institutional investment. In particular, 'greenfield' demand risk is a concern given some recent project outcomes and many funds are not prepared to accept it. Funds will consider design and construction risks but their appetite for it depends on the availability of construction entities with the skills and financial capacity to manage bespoke project risks.

The size of projects can also be a barrier. Superannuation funds have an optimal investment size range. Projects requiring an equity investment of less than $100m – which implies a total project cost nearing $1 billion – can result in a forecast net return, after costs, which does not justify participation. This is because transaction costs only reduce in proportion to project size to a point.

It is recognised that the solutions to these issues are beyond the capacity of one state. However, as a leading procurer of infrastructure using private finance, Victoria can set a trend.

- Victoria could contribute to a long run pipeline of funded projects, by building on the existing Infrastructure Australia priority project list.

- Victoria could work more closely with the private sector to develop structures more conducive to attracting institutional investment. For example, investigating sharing demand risk for toll road projects.

Taxation Issues

The availability of a tax-efficient collective investment vehicle, which allows the pooling of superannuation funds to share due diligence costs, is an important issue. The recent introduction of the managed investment trust regime has been significant in facilitating such collective investment. However, restrictions on the availability of flow-through treatment of trusts owning infrastructure assets and the absence of a vehicle which provides for full flow-through of income and losses remains an impediment to collective investment. The related measures announced in the 2011 federal budget addressed this issue to an extent but are highly targeted and will impact on their effectiveness.

There are other important issues, such as the illiquidity of assets and the constraints of investment mandates and asset allocations, which also impact on the propensity of superannuation funds to invest in infrastructure. These issues are discussed in other reports in the public domain.

Opportunities to Attract other Participants

There are other sources of capital which could be targeted more aggressively and which would complement the pool of capital held in local superannuation funds. They are discussed below. Attracting them is likely to be beyond the capacity of Victoria alone, but it could assume a role as an advocate for action on a national basis.

Infrastructure Bonds

While the bank debt financing market has survived the GFC, the capital (or bond) market was a casualty and remains dormant. This has stimulated discussion about an infrastructure bond market. A liquid and tradeable product such as a bond, which would be issued for particular projects, would improve the liquidity of infrastructure assets for private sector institutional investors. A new infrastructure bond market could be directed to creating incentives for superannuation funds or foreign investors to fill the current gap between senior debt (typically provided by banks) and equity. Bonds could potentially be packaged for the retail market to attract self managed funds, though the product would need to demonstrate sufficient liquidity, noting the pressure for redemptions from the unlisted retail property sector during the GFC.

However, establishing an active market or tradeable infrastructure bonds is currently impeded by:

- the relatively short terms of government-issued debt in Australia; and
- the widespread downgrading of monoline insurers and as a result the capacity to 'wrap' (or enhance the creditworthiness) of bond issues.

Some have suggested preferential tax treatment for new infrastructure bonds, but this requires caution. In principle, preferential treatment should only be sought if it will:

- attract new investors who would not otherwise participate
- improve the overall efficiency of financing by providing a cheaper solution.

Mechanisms and resources for oversight of tax-preferred arrangements are also required, to monitor up-take and costs compared with objectives. Previous attempts with tax-preferred products have resulted in poor outcomes.

Infrastructure Funds

Wholesale infrastructure funds play an important role in channelling capital from local and offshore investors into infrastructure projects. The wholesale funds range from providers of long term 'patient' capital to shorter term private equity funds. Investors in these funds include pension funds and sovereign wealth funds with an appetite for the sector but lacking the expertise to invest directly. Funds provide investors with risk mitigation through diversification. Specialist infrastructure investment expertise is provided by managers retained by the fund, which allows for the efficient sharing of due diligence costs across all investors in the fund. The introduction of the managed investment trust regime, including the concessional withholding-tax rates that apply to certain fund distributions, increases the potential to attract foreign investment.

Infrastructure Bank

Another pool of capital for investment in infrastructure could be achieved by establishing an 'infrastructure bank'. This approach has been widely debated in the United States and the United Kingdom. In simple terms, the bank uses public capital to leverage private sector capital. For example, both public and private sector funds are used to purchase highly-rated bonds issued by the bank. Those funds are subsequently re-invested in projects across a range of infrastructure sectors. The advantage of this approach is that it diversifies the risk exposure for individual institutional investors, such as pension funds, who are more comfortable with broad exposure to infrastructure as a class rather than exposure to individual projects.

Recycling Capital to Fund Infrastructure

The state (and federal) public sectors own a large portfolio of infrastructure and real property assets, and businesses operating in competitive or regulated environments. There are likely to be opportunities to recycle the capital invested in all of these assets, which – assuming the proceeds could be quarantined – could provide funds for new 'greenfield' projects and attract institutional investment. This approach would not require institutional investors to bear asset risks until they are operational and this risk-return profile would be attractive to the superannuation industry. This approach is common in the private sector and in the secondary market for equity interests in public private partnership (PPP) projects.

The superannuation industry has suggested that the federal Government commission a review of its operating assets to identify opportunities to sell and harvest capital. For its part, the public sector would need to carefully consider issues such as service levels, regulation and control, and policy change, as well as a robust framework for assessing value. Some transactions of this type have been poorly managed in the past.

Conclusion – What Needs to be Changed?

The GFC depleted the pool of finance but that finance remains active. Reforms could broaden the available pool of capital but supply is not a barrier to the private sector's participation in financing infrastructure in Victoria. Changing the mindset of government and the community is the substantive problem – fiscal policy and debt levels are too conservative to meet the infrastructure challenge. Changing the conversation on user charges is a related reform which could help manage demand and create opportunities for private sector financing with limited public sector support.

2. Moving Melbourne: A Transport Funding and Financing Discussion Paper (2012)

Moving Melbourne

A TRANSPORT FUNDING AND FINANCING DISCUSSION PAPER

COMMITTEE FOR MELBOURNE

ABOUT THE COMMITTEE FOR MELBOURNE

The Committee for Melbourne is an apolitical, not-for-profit member network that unites a cross-section of Melbourne's leaders and organisations to work together and enhance Melbourne's economic, social and environmental future.

The Committee aims to ensure Melbourne's challenges and opportunities are tackled and grasped in ways that keep our city vital, inclusive, progressive and sustainable long-term.

FOREWORD

Moving Melbourne is a discussion paper that examines alternative funding and financing options that could be used to advance Melbourne's future transport needs.

This work is a culmination of a 12 month long series of workshops between the Committee's Grade Separation Taskforce and its Infrastructure Funding and Financing Taskforce.

The Committee would like to thank all members, in particular those listed, who have generously contributed their time, knowledge and expertise, to help drive positive discussion on Victoria's long-term infrastructure investment strategies.

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Acknowledgements

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"We must start to explore innovative mechanisms to unlock new funding streams, and bring forward our infrastructure investment to generate an uplift in productivity and urban value."

introduction

Victoria faces a range of economic challenges – a high Australian dollar, weaker global and national economic conditions, declining productivity and a substantial reduction in revenues, all of which constrain budget capacity. As the state's population increases and our city's economic contribution to the national economy becomes more widely recognised, the need to invest in critical productivity-enhancing transport networks continues to build.

Victoria plays a central role in the Australian economy. It is home to approximately one quarter of the nation's people and represents one quarter of the nation's gross domestic product. The quality of Victoria's transport infrastructure, which was planned with the foresight of previous generations, continues to support our population and economic position today. However, the existing network is under stress and this creates a risk for Victoria's future liveability and competiveness. Over the last few decades, a lack of strategically focused planning and appropriate investment in transport infrastructure to meet growing social, economic and environmental needs, has diminished Victoria's competitive position and created a significant infrastructure backlog.

At 30 June 2011, Victoria's population was 5.6 million, and based on current forecasts, is projected to increase to 8.7 million over the next 40 years. Melbourne, which is home to approximately 75 per cent of Victoria's population, is expected to experience a similar growth rate, moving from 4.1 million to 6.5 million over the same 40 year period.[i]

Considering our constrained economic conditions and rate of growth, **we must start to explore innovative mechanisms to unlock new funding streams, and bring forward our infrastructure investment to generate an uplift in productivity and urban value.**

In June 2012, the Committee for Melbourne published *Discussion Paper on Funding and Financing Infrastructure in Victoria,* which concluded the solution to infrastructure funding and financing issues was a change in the mindset of government and the community.[ii] Less than a fortnight later, Infrastructure Australia's (IA) Infrastructure Finance Working Group (IFWG), published its report on *Infrastructure Finance and Funding Reform.* The reform report made a number of high-level recommendations, including the following:

Governments should utilise appropriate models to drive revenue from the broader benefits delivered by major infrastructure projects, such as value capture for transport infrastructure... [iii]

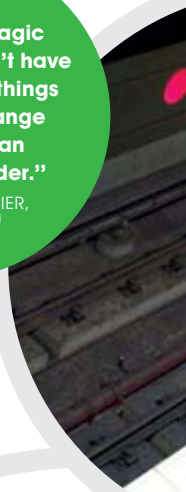
Many voices are recognising the fiscal challenge of an increasing funding gap facing all levels of government and the community.

Moving Melbourne aims to create a conversation for Victoria by examining value capture techniques and other funding options, that could be utilised to increase the pool of funds available to invest in critical transport infrastructure projects.

The Committee for Melbourne recognises that a large proportion of the community is yet to reach a level of understanding and acceptance around many of these concepts. However, given Victoria's aspirations to improve its liveability and competiveness, this is a conversation that needs to occur.

Victoria's infrastructure requirements are well-documented. This paper does not seek to cover this ground, nor does it intend to prioritise one project over another. In that context, examples should be considered exactly as they are: examples, not priorities.

"There is no magic pudding. We can't have it all and some things do have to change and nor is it an overnight wonder."
VICTORIAN PREMIER, TED BAILLIEU[VI]



focusing on transport investment – the need for innovation

A city's mobility is vitally important. Connecting people and places helps drive economic activity, sustains relationships and has been shown to improve well-being. An efficient and effective transport system is therefore critical to the success and functionality of Melbourne and Victoria.

The foresight of previous generations to plan and build quality transport infrastructure underpins Melbourne's highly-prized liveability and consistent rate of growth. Arguably, if it was not for the vision and ambition of those before us to deliver city-shaping projects like the Melbourne Underground Rail Loop and CityLink, Melbourne would be a very different place.

Nevertheless, Melbourne and Victoria are now at a crossroads. Investment in transport infrastructure has stalled while population growth continues alongside a disproportionate increase in public transport patronage, and a growing freight task. Declining productivity is a risk for all Victorians.

Although the benefits of investing in transport infrastructure are widely recognised (improved mobility, local economic stimulation and job creation), the negative impact of under-investment to economic, environmental and social contexts is equally as important, and very real given the tight fiscal environment.

There is impetus for change as the cost of 'do-nothing' is significant. One of the major challenges facing governments of all persuasions is how to cost-effectively respond to the future demands on Melbourne's transport network.

The current Victorian Government recognises these challenges and has responded by implementing a series of important reforms for the approval and management of high-value and high-risk projects; however, more must be done. Traditional sources of funding are dwindling as various changes play out in the macro-economic environment, and this is impacting the investment capacity of State Governments. Victoria is at risk of being left behind as other jurisdictions think creatively about how to fund their city's future mobility.

An example of an innovative funding strategy was demonstrated in the United States (US) city of Los Angeles (LA). The LA 30/10 initiative was a funding proposal voted in by more than two-thirds of LA County voters in November 2008 to assist the delivery of 12 new transport projects over a 10 year period.[IV]

The proposal featured a one-half cent sales tax called Measure-R that was applied across the entire county and used to fund targeted transportation improvements. By adopting a plan that was backed by an innovative and strong local funding commitment, the city was able to secure the rest of the investment required to fill the funding gap from state and federal partners.

The LA 30/10 initiative proves that strong political leadership and community support for the benefits of an identified program of city-building transport projects can achieve a significant acceleration in the delivery of an ambitious project pipeline.

FUNDING AND FINANCING

There is a clear distinction between funding and financing, however there is constant confusion between these concepts. To clarify, these can be described as follows:

- **Funding** is the source of funds which ultimately pays for the infrastructure, and can be sourced:
  - indirectly from community members via the application of state or local government funds;
  - indirectly from infrastructure beneficiaries (for example value capture via specific levies); or
  - directly from infrastructure users (for example user pays via tolls on toll-roads, fares on public transport).
- **Financing** is money raised upfront and can be:
  - monies raised from banks and other investors to pay for infrastructure, which ultimately must to be repaid by one of the funding sources; or
  - not raised at all, if infrastructure is paid for directly from federal, state or local government funds.

LA 30/10

The LA 30/10 initiative is accelerating the construction of 12 new transport projects that were scheduled to be built over a 30 year period – but will complete them in 10 years.

The concept uses funding from a 30 year sales tax, called Measure-R, as collateral to pay off long-term bonds and a federal loan.

Two-thirds of LA County voters voted in the Measure-R sales tax in 2008, which will commit a projected US$40 billion towards transportation upgrades. After subtracting 1.5% for administrative costs, the remaining money must be spent as follows:

– 35% for transit capital projects (new rail and bus rapid transit lines)

– 3% for transit capital on the Metrolink commuter rail system

– 2% for transit capital on rail cars and rail yards

– 20% for highway capital projects

– 5% for operations on new rail lines

– 20% for bus operation improvements

– 15% for local return (transportation money that individual cities decide how to spend).

Source: LA Metro, 30/10 Initiative, *http://www.metro.net/projects/30-10/*, May 2011

In essence, funding must be available to repay finance. This is a critical conceptual point, as the availability of capital or financial products does not remove the need to identify a funding source. While there are specific issues – and opportunities – with funding and finance, they are not the same.[v]

It is the willingness of government or users to commit funding, which ultimately determines the level and pace of infrastructure development. Unless the funding source for a piece of infrastructure is determined, it is counterproductive to discuss financing. Throughout this discussion paper, we focus on funding rather than finance, as we believe the questions around funding solutions must be answered before we turn a focus to financing.

GOVERNMENT FUNDING

Direct government funding of infrastructure can be derived from three main sources:

1. Applying current tax revenues to build infrastructure;
2. Applying future tax revenues, by borrowing today to invest in infrastructure (thereby generating greater economic activity and thus tax revenue in the future); or
3. Sales of public assets, providing capital to reinvest in infrastructure.

Over the last two decades, federal and state governments have relied on surplus recurrent revenues to fund their expenditure on infrastructure, and as a result, have actively minimised the use of debt. This approach has reflected a short-term focus on generating cyclical budget surpluses and maintaining credit ratings. Political imperatives have also largely driven this strategy, rather than sound economics; resulting in short-term financial considerations being prioritised over long-term economic outcomes. This form of decision making has deferred projects which offer net economic benefits and could expand long-run economic capacity.[vii]

The Committee for Melbourne believes the fiscal balance is wrong. The increasing entrenched aversion to even modest levels of debt means much-needed investment in productivity-enhancing infrastructure is constantly deferred. Debt funding equitably spreads the cost of long-life infrastructure across generations. One politically palatable solution to encourage governments to invest in transport infrastructure may be to tie government debt raisings to specific projects, so the community can clearly identify the reason why debt levels may be increasing.

In regards to the sale of public assets to release funds which can be reinvested into infrastructure projects, this discussion is beyond the scope of this paper. However, recent reports from IA and the IFWG have discussed the validity of such concepts.

PRIVATE FINANCING

Private financing is often seen as the solution to our infrastructure problems, with discussion to date focusing primarily on why our superannuation funds do not invest more in infrastructure. Private financing alone is not the solution to our infrastructure problems. The question of where the funding source necessary to repay the finance will come from, must first be answered.

All private sector financing raised from banks and other investors (including superannuation funds) to pay for infrastructure, ultimately must be repaid via a funding source (for example, user pays, value capture or government funding). Therefore, if there is an increase in the number of infrastructure projects financed by the private sector, funding for that infrastructure will need to derive entirely from, or through a combination of, the three funding sources mentioned.

CROSSRAIL

Crossrail is a major railway link under Central London, with an estimated cost of £15.9 billion.

A Crossrail Business Rates Supplement (BRS) allows the Greater London Authority (GLA) to collect financial contributions to fund this cost.

Under powers enacted in the Business Rates Supplements Act 2009, the GLA applies a levy of 2 pence per pound on non-residential properties with a rateable value of £55,000 or more in London (over 80% of businesses in London are exempt from the BRS, as their rateable value is below this threshold).

The BRS is collected on the GLA's behalf by 32 London boroughs and the City of London Corporation, in conjunction with rates collections. The supplement is expected to run for 24–30 years, or until the GLA's initial upfront borrowing is repaid.

The GLA financed 26% of the project cost (£4.1 billion worth of borrowing) via the application of the BRS, and the outstanding repayment of this debt is set to begin upon completion of the Crossrail construction works.

Crossrail farepayers will also contribute towards the debt raised during construction.

Source: *Greater London Authority,* Intention to Levy a Business Rate Supplement to Finance the Greater London Authority's Contribution to the Crossrail Project: Final Prospectus, *January 2010*

The Committee for Melbourne strongly believes exploring the full range of funding sources will help generate the answers to some of our infrastructure challenges.

An example of how a range of funding sources may be used to address a current transport priority is in the topical area of grade separations – that is, removing rail level crossings from the road network. Melbourne has over 170 intersections where train tracks intersect with road; more than any other city in Australia, which significantly impedes traffic flow and creates public safety risks.

Eliminating these intersections by separating train infrastructure from the road network can yield significant benefits for public transport, road networks, and the broader community. When upgrading these locations, there are often opportunities to capture uplifts in property values throughout surrounding areas, and/or increase the possibility of raising funds from those that benefit directly from the upgraded infrastructure.

There are also wider benefits for the community, including increased productivity, safety, and urban renewal, which create a compelling case for governments to contribute significantly to these projects.

No single source of funding (other than the short supply of government funding) can support these projects. With a combination of funding sources applied however, the Committee believes the funding gap can be reduced and infrastructure investment can be brought forward.

This discussion paper explores a range of funding options, with the realisation that many of these concepts are difficult and unpopular to discuss. Nevertheless, the Committee is committed to driving an informed debate on how some of the complex infrastructure challenges we face might be solved.

DALLAS AREA RAPID TRANSIT

Dallas Area Rapid Transit (DART) is a TIF arrangement exclusively for Transit-Orientated Development (TOD) projects and was approved in 2008 as a result of collaboration between DART and the City of Dallas. Key features include a 226 ha assessment district and a project lifespan of 30 years. DART is expected to deliver US$328 million in incremental tax revenue, and stimulate around $1 billion of development, based on property value prices increasing from US$320 million (2008) to US$3.52 billion (2038). Between 1999 and 2007, approximately US$4.26 billion of development projects undertaken adjacent to railway lines were attributed to DART. Studies have determined that residential and commercial properties near DART stations command 12.6% and 13.2% premiums respectively, as opposed to properties located elsewhere.

Sources: *City of Dallas, Office of Economic Development,* TOD Tax Increment Financing District Project Plan and Reinvestment Zone Financing Plan, *10 November 2010; see also Clower, T.L. and Weinstein, B.L, 'The Impact of Dallas (Texas) Area Rapid Transit Light Rail Stations on Taxable Property Valuations' 8(3)* Australasian Journal of Regional Studies 389.

"When introducing a new levy or charge, the governing body must prove a clear and demonstrable link between the levy that beneficiaries (businesses and/or residents) pay, and the improvements they receive in return."

why capture value?

There is a growing body of international and domestic empirical evidence which demonstrates the benefits of transport infrastructure investment to real estate values and the wider economy. In an environment where there is increasing pressure on governments to deliver sustained and significant transport infrastructure investment programs, relying on traditional funding sources, such as user pays and direct government funding contributions, can only form part of the funding solution.

By providing a framework to monetise the wider benefits of improved transport accessibility and efficiency, value capture mechanisms provide government with additional sources of funding that can be targeted directly at the beneficiaries of the particular transport infrastructure project being invested in.

There is growing momentum overseas towards the use of value capture to support the funding of infrastructure projects, and the use of property development as a funding source for transport investment is well-documented. For example, property development has been a major contributor to funding rail infrastructure investment in countries such as Japan and Hong Kong, where land values are high and public transport mode share is significant.[viii]

There is also a long list of projects that have applied value capture levies on key beneficiary groups. London's Crossrail project is a recent example (see page 8). This project involves 21 kilometres of new rail tunnel with 37 rail station connections (including eight new sub-surface stations). Project funding is drawn from a range of sources, including a business rates supplement, (an additional levy on non-domestic property rates in certain London boroughs, also known as a Benefitted Area Levy), that aims to raise £4.1 billion (25%) of the forecast £15.9 billion project capital cost. Sale of surplus land and developer contributions will also provide additional funding for the project.[ix]

Throughout the US, the use of value capture techniques has a long history, having supported delivery of numerous transport projects including, among others, the Dallas Area Rapid Transit, the Los Angeles Metro and San Francisco's Bay Area Rapid Transit development, which introduced Benefitted Area Levies as far back as 1966.

The introduction of value capture techniques can generate a range of new benefits beyond pure funding. If implemented well, they can provide an effective and efficient source of finance, in addition to more traditional sources of finance. They are also equitable, in that they target the investment's beneficiaries, and can encourage improved transparency and accountability in the infrastructure investment decision, with an onus on proving the connection of the project's benefits to the value capture charge.

If we take for example, the case of improved grade separation across Melbourne's road and rail network, the range of beneficiaries include:

- **Public transport passengers**
  – due to improved frequency and service quality;
- **Rail and road freight users**
  – due to improved operational efficiency generated from reduced congestion and travel times;
- **Business owners**
  – due to improved accessibility for their customers and/or employees;
- **Private transport passengers**
  – due to reduced congestion;
- **Land owners**
  – due to the increase in underlying land values and the potential increase in developed real estate values; and
- **Government**
  – due to improvements in property-based revenue streams, such as rates and land taxes from increased land values.

A variety of techniques have been employed domestically and internationally to capture the benefits generated by transport investment, and to use them as a funding source for the infrastructure which creates the benefit. These range from targeted levies linked to a defined area or group of beneficiaries (such as a Benefitted Area Levy), broad-based levies targeted at the broader public or potential beneficiaries (such as a Broad-Based

MELBOURNE PARKING LEVY

In 2006, the Victorian Government implemented a parking levy for all specialised parking buildings within the Melbourne CBD and adjacent areas including the Southbank, Docklands and St Kilda Road precincts.

The levy is paid by the owners of both public and private (excluding residential) car parks within the defined area.

The Melbourne parking levy is an annual rate, applied to each parking bay. In 2006, rates began at $400 a year per bay, rising to $800 in 2007 and $910 in 2012. The levy is expected to generate revenue of more than $46 million in 2012, with this revenue to be directed towards public transport initiatives and other infrastructure investments.

Source: *Hamer, P., Currie, G. and Young, W., Australasian Transport Research Forum 2011 (Adelaide),* Parking Price Policies – A Review of the Melbourne Congestion Levy, *28 September 2011; see also: State Revenue Office of Victoria,* Congestion Levy: Overview *www.sro.vic.gov.au*

Transport Improvement Levy), through to levies which alter behaviour to encourage greater use of the public transport investment (such as a congestion charge or parking levy). An overview of these options is outlined on the following pages.

In the Australian context, value capture is still an emerging funding mechanism, and is yet to be widely adopted beyond the use of developer contributions to fund public infrastructure. However, local government has introduced a range of rates-based levies to support investment in community and local business area infrastructure, as well as community-wide charges to support investment in public transport.

Generally, Australian governments have been slow to adopt alternative approaches to funding infrastructure, beyond the relative ease of selling surplus land and/or development rights for cash and works in kind (of which Barangaroo in Sydney is a great example), and developer contributions towards the provision of civil and transport infrastructure.

Depending on the number of stakeholders involved, the catchment area size, and the implementation approach, value capture mechanisms may involve a high-level of complexity in implementing and administering the regime which could offset the financial benefit.

There are also numerous legislative, public interest and implementation issues to consider before introducing a value capture mechanism (for example conceptualising the regime, defining beneficiaries, quantifying benefits, considering planning and land use impacts, setting the charge, legislative and public interest considerations, governance and administration).

Despite the technical detail that must be considered as part of the discussion of these funding concepts, public support is crucial to their implementation. **When introducing a new levy or charge, the governing body must prove a clear and demonstrable link between the levy that beneficiaries (businesses and/or residents) pay, and the improvements they receive in return.** The case studies discussed in this paper have often involved high-levels of public consultations, support for the value capture levy, and a co-commitment to invest in proposed infrastructure projects, the latter being a crucial element to public support.

alternative funding and financing mechanisms

Funding and financing innovation is the key to unlocking continuous investment in Victoria's transport infrastructure. The following concepts are not new and have been successfully applied in many jurisdictions internationally, and in some cases, within Victoria or elsewhere in Australia.

While each mechanism has distinct characteristics suited to different contexts, it is likely that a blend of alternative funding sources will need to be used in addition to federal, state and even local government contributions, to accelerate infrastructure investment. It is estimated that combining multiple innovative mechanisms which hypothecate revenue raised towards transport infrastructure investment, could help reduce demand on consolidated revenue to around 50%–60% of the project cost; thereby enabling governments to initiate a broader pipeline of investment. An overview of these mechanisms is provided in the following pages.

FUNDING & FINANCING MECHANISMS

- **Benefitted Area Levy**
- **Broad-Based Transport Improvement Levy**
- **Incremental Rates Growth**
- **Paid Parking Levy**
- **Developer charges and development rights**
- **Road tolling**
- **User Infrastructure Levy**
- **Congestion charging**

BENEFITTED AREA LEVY

Benefitted Area Levies (BAL) – also known as betterment levies, special assessment districts, or value capture levies – aim to recover some of the benefits that specific areas and businesses receive from an efficient public transport system. BALs involve the application of a special levy to the properties and/or businesses within a defined area, using the collected revenue to fund new public transport infrastructure or contribute to public transport operating costs. BALs are widely accepted and utilised by local councils throughout Australia. They can be implemented in a number of ways (such as via supplements on rates on property owners or payroll taxes on business owners); and require a clear nexus between the public transport investment's benefit, and an identifiable catchment of associated beneficiaries.

One of the most recent and successful use of a BAL to assist project funding is London's Crossrail.[x]

Potential Application to Victoria

Melbourne has previous experience with the use of a BAL to fund the Melbourne Underground Rail Loop (MURL) – more commonly known as the Melbourne City Loop.[xi] In the case of the MURL, the Victorian Government provided 50%[xii] of the funds through a public transport ticket levy, City of Melbourne provided 25%[xiii] of the funds through a BAL, and the Melbourne Metropolitan Board of Works provided 25%[xiv] of the funds. To support the MURL, the BAL commenced in 1963 and was lifted in 1995.[xv]

In the context of Melbourne Metro (a current Victorian Government transport priority project), applying a BAL to businesses in the Melbourne CBD could have merit, as there are likely to be substantial benefits for CBD-based businesses. The project will provide increased capacity and accessibility for morning and evening peak travellers, while also increasing the efficiency of the entire metropolitan rail network.

A contribution from CBD-based businesses could be levied in the form of either a:

- **Rates supplement** – on CBD-based properties applied as either a flat or sliding scale rates supplement; or
- **Payroll tax supplement** – an additional premium on CBD-based business payroll tax calculated as a sliding scale rate based on payroll value.

Another method could involve applying a BAL to residential and business owners of properties located in proximity to significant public transport improvements, recognising that these owners may receive a value premium relative to properties with limited access to public transport. A levy

GOLD COAST RAPID TRANSIT

Stage 1 of the Gold Coast Rapid Transit project is an 18 year, $1 billion Private Public Partnership (PPP) contract. Stage 1 includes design, build, finance and operation of the light rail project.

It is 13km long and includes 16 stations. Future stages are expected to deliver a total corridor length of 40km.

Gold Coast Rapid Transit secured total funding commitments of $949 million from all three levels of government. In addition, a long-term partnership has been developed with private sector consortia for finance, build and operation of the light rail system.

The Commonwealth provided a $365 million capital grant on an unconditional basis.

The Gold Coast City Council is contributing $120 million via a BBTIL on Gold Coast ratepayers. The Queensland State Government is providing $464 million.

Source: *Gold Coast City Council,* Revenue Statement and Resolution of Rates and Charges, *2012–13, 22 June 2012; see also Department of Transport and Main Roads,* Gold Coast Rapid Transit: Lessons learned from Planning to Procurement, *2011*

on property owners could be applied, on the basis that access to public transport has added value to their holdings at no additional charge. This levy could be calculated as a flat rate on the basis of the unimproved capital value of each property. Grade separations that can support urban renewal in the immediate surrounds of properties and drive growth in local property values, may warrant the use of the BAL and/or hypothecation of an increase in local government rates.

BROAD-BASED TRANSPORT IMPROVEMENT LEVY

An efficient public transport system benefits all members of the community. A Broad-Based Transport Improvement Levy (BBTIL) imposes a city-wide levy, typically on ratepayers, which is then used to fund public transport improvements. BBTILs typically provide a significant pool of funds, and in turn, an ability to accelerate a program of public transport investment. BBTILs can also provide a recurring revenue stream for the state.

The Gold Coast City Council levies an annual transport improvement charge (a BBTIL) on ratepayers (currently $111 per annum FY2012).[xvi]

These funds support investment in public roads and public transport and were used to help fund the Gold Coast Rapid Transit project.[xvii]

Potential Application to Victoria

In order to accelerate the delivery of Melbourne's current transport infrastructure priorities, a BBTIL could be implemented in the form of an additional charge to ratepayers in the Melbourne metropolitan region. Councils could collect the levy on behalf of the Victorian Government, with revenues used to directly fund a program of critical transport projects that support metropolitan-wide benefits. This could include many of the projects on the current Victorian Government Infrastructure Australia priority list.

BBTILs could be applied under two main structures:

- **A flat levy** – potentially involving a flat levy per rateable property; or
- **A variable levy** – based on the rateable value of properties, similar to the approach used when determining rates and land tax.

Given that the infrastructure and systems to collect rates and land tax are already in place, this option would be relatively efficient to deploy. Combining the BBTIL with a hypothecation regime that directs the levy to ongoing investment in public transport infrastructure, would distinguish the levy from ordinary government revenue mechanisms.

BBTILs raise significant funds over time. As a new source of funding to support public transport investment, BBTILs could enable governments to accelerate investment, and bring forward the productivity and social benefits this infrastructure generates.

INCREMENTAL RATES GROWTH

Good infrastructure undoubtedly has a beneficial effect on property values across the area serviced by the infrastructure. This increase in property values translates to a funding source, because there is an incremental increase in rates (and land taxes) which are calculated based on the unimproved value of property.

This funding is only realised over time, so there is no immediate revenue stream. However, the future revenue stream can support financing, commonly known as Tax Increment Finance (TIF), as the future incremental revenue can be dedicated to repay financing. Indeed, both BAL and BBTIL referred to above can be converted from a future funding source into cash for infrastructure via a TIF arrangement.

A key argument in favour of TIF arrangements is that they are equitable, efficient (linked to wealth gains by property owners),

CITY OF SURREY

The City of Surrey (the City) is located in British Columbia, Canada. It has an approximate population of 450,000 people spread across six town centres.

In 2006, after a number of funding shortfalls (including Provincial Government funding cuts, an ongoing 0% property tax increase and increasing maintenance costs), the City identified a significant funding gap in its 10-Year Transport Servicing Plan.

The City currently has a number of property taxes associated with the construction or redevelopment of developments within the metropolitan boundary. Recognising the funding gap, the City decided to use these redevelopment related property taxes to fund the public transit system.

In 2010, these taxes generated $163.6 million in property taxation revenue. Legislation required the City to spend $16.5 million (approximately 10%) toward funding public transport improvements.

Source: *Fillion, S. Transportation Funding Strategy: A Review of Alternative Funding Strategies to Deliver Transportation Services, November 2006*

and effective (do not have upfront price impacts or create a disincentive to the redevelopment of land). Additionally, in a large number of US cases, stakeholder support for TIF arrangements is a necessary pre-condition to their implementation, providing a direct link between the decision to invest and the investment beneficiaries.

Utilising this incremental rates growth via TIF has been widely used throughout the US to finance urban renewal and transport projects and is often used as a tool to encourage economic development. The Dallas Area Rapid Transit project collaboration with the City of Dallas is a notable example of how TIF can be used to support the financing of infrastructure that generates localised benefits (see page 8).[xviii]

Potential Application to Victoria

While having great appeal overseas, the use of TIF in a Victorian context requires further consideration of a range of jurisdictional, legislative and structural factors to ensure acceptability to the different tiers of government. Structuring the bonds to obtain sufficient appetite from capital markets also demands attention, given the connection to incremental property value growth.

PAID PARKING LEVY

Paid Parking Levies (PPL) are fee-based mechanisms charged against the use of parking bays within a defined area. PPLs can be implemented either as a levy, or as an annual fee, for a car park licence tied to a cap on car parks in a region. PPLs are commonly implemented in high congestion areas including CBDs and other key activity nodes.

Many cities around Australia (including Melbourne) employ PPL schemes as a means to modify behaviour of private vehicle users and to provide a funding source for public transport investment.[xix]

Due to existing infrastructure around parking bays, a PPL provides a robust revenue system with a secure and easy-to-implement collection method.

PPLs also assist in shifting the behaviour of the community towards increased public transport usage, and are most effective when there is spare capacity in the relevant transit modes which private vehicle users migrate towards.

Potential Application to Victoria

Given PPLs are already successfully used within the Melbourne CBD and surrounding areas, one option may be to widen the boundaries to which the PPL is applied.

This could involve expanding the PPL boundary by one kilometre, or targeting the PPL to congested areas where access to public transport is ample.

As is currently the case, the additional funds generated by increasing the PPL boundary would be targeted towards public transport investments.

DEVELOPMENT CHARGES AND DEVELOPMENT RIGHTS

Existing public transport infrastructure is often situated in central locations and can present attractive property development opportunities. This is particularly the case where land is scarce, rents and/or sale prices are high, and demand for developed outcomes (residential or commercial uses) is strong.

The acquisition of land above and/or adjacent to key public transport stations provides an opportunity to contribute funding for the construction of transport infrastructure through the sale of development rights. Combined with amendments to land use planning that support appropriate uses and increased density around key transport nodes, there is potential to deliver urban renewal to the Victorian Government's infill development targets.[xx]

Source: *VicRoads, CityLink Project Overview, last updated December 2011, available at: http://www.vicroads.vic.gov.au/Home/Moreinfoandservices/RoadManagementAndDesign/TypesOfRoads/CityLink/ProjectOverview.htm*

EXHIBITION STREET EXTENSION

The Exhibition Street Extension project was announced by the Victorian Government in April 1998 and opened in October 1999.

It included a four lane divided road over the Jolimont Rail Yards which connects Melbourne's CBD with CityLink.

The project delivered improved traffic outcomes for CityLink and Swan Street road users. Given the majority of benefits were accrued by road users, the use of new toll points was considered the most effective solution to fund the project.

Tolls for operating the project are integrated with CityLink and collected from road users by Transurban.

Developer charges and contributions vary from development rights and are generally well understood. There may be opportunities to capture value through increases in developer charges, connected with density bonuses and planning gain bonuses, given land use planning may support land value improvements through, for example, increased density or changes in allowable uses.

The City of Surrey in British Columbia, Canada, has used redevelopment-related property taxes to fund its public transit system (see opposite).[xxi]

Potential Application to Victoria

Given there are a number of drivers influencing people's decision to live and work in areas well serviced by public transport, such as cost of living pressures, traffic congestion and concerns about climate change, there can be strong demand for Transit-Orientated Development (TOD) outcomes. In addition, from the Victorian Government's perspective, there are a range of social and financial benefits to government from promoting infill development over development on the urban fringe.[xxii]

In the case of application to grade separations, there may be opportunities to sell development rights to allow TOD above and/or adjacent to the grade separation. Upon completion, surplus land could then also be sold for development.

Whilst there are many challenges with development above and/or adjacent to public transport infrastructure (such as construction and operation interface and construction cost considerations), the value derived from the sale of development rights ultimately accounts for these impacts. In pursuing TOD outcomes around priority transport nodes, the key for the Victorian Government will be to ensure that infrastructure designs account for TOD outcomes and that planning frameworks support an appropriate mix and scale of development.

ROAD TOLLING

Road tolling is a fixed charge or fee imposed on the direct beneficiary of a particular road asset. It is often linked with the provision of significant capacity or efficiency-enhancing infrastructure, and thus provides a privilege (for example, improved travel times) for its users.

Tolling, which is common practice around the globe, provides an opportunity to fund investment in new transport infrastructure in the locality the toll is collected. Melbourne has a number of successful toll roads that provide significant benefit to the functionality of the city, in many cases helping to shape major economic improvement.

One example of how road tolling was successfully used to contribute to the funding of transport infrastructure that improved localised traffic outcomes for the city was the Exhibition Street Extension for CityLink.

Potential Application to Victoria

In the context of road/rail grade separations, there are numerous localities within Melbourne where level crossings are closely located to freeway entries and/or exit points, negatively impacting multiple transport nodes. These specific areas also create safety and congestion points beyond the immediate intersection as traffic backs up onto the freeway proper, thereby impeding traffic flow. By removing the intersection of road and rail at these locations, there would be significant capacity and efficiency improvements, which could be partly funded by installing new toll points.

SINGAPORE NORTH-EAST LINE

A S$4.6 billion 20km 16 station fully underground automated and driverless rapid transit line operational from 2003.

The Land Transport Authority gained approval to construct the line in 1996.

The construction was fully government funded, with the aim to foster development along the north-east corridor of the island.

The North-East Line operates under a 30 year operating licence, by SBS Transit; one of Singapore's two vertically integrated competing land transport operators.

The private sector operator, SBST, retains the revenue generated from fares, as well as third party/commercial usage of the stations, and pays the Land Transport Authority a licensing fee.

While the rolling stock is initially provided to the private sector operator at no charge, it is expected that the private sector operator subsequently acquires the rolling stock from the Land Transport Authority at a pre-agreed price. The private sector operator is responsible for maintenance as well as ongoing asset renewal.

Source: *KPMG International, Success and Failure in Urban Transport Infrastructure Projects, 2010*

USER INFRASTRUCTURE LEVY

A User Infrastructure Levy (UIL) provides an opportunity to invest in new infrastructure and apply a charge to those road and/or public transit users who directly benefit from this new infrastructure through reduced congestion and improved travel times.

One example of how a UIL has been used to help bring forward the investment in a major piece of city-building transport infrastructure is the North-East Line in Singapore.

Potential Application to Victoria

In the context of Victoria, a railway-user infrastructure levy could be used to fund the construction of new rail infrastructure by adding a levy to the fare charged for its use. As noted in the discussion of BALs, Melbourne has previous experience with the use of a railway-user infrastructure levy to fund the MURL via the public transport ticket levy.

Melbourne Metro – a Victorian Government project involving the construction of a nine kilometre rail tunnel through the heart of Melbourne, linking the Sydenham (soon to be Sunbury) and Dandenong rail lines; can be used to provide an example of how a railway-user infrastructure levy could help fund a current transport priority.

The current project proposal includes five new underground stations at North Melbourne, Parkville, CBD North, CBD South and Domain.[xxiii] As the project is expected to provide improved access to part of the inner city and enhance service reliability and capacity, users of the new Melbourne Metro could have a surcharge applied to fares for use of the new line and associated stations.

CONGESTION CHARGE

A congestion charge is a fee-based mechanism aimed at limiting the number of private vehicles on the road by imposing a direct cost on the externalities that contribute to road congestion.

Two main congestion charge structures are utilised globally:

- Distance-based – users are charged for distance travelled through electronic tagging of vehicles; and
- Cordon-based – users are charged for entering a defined area (such as the CBD).[xxiv]

Distance-based and cordon-based congestion charges are capable of generating significant revenue. As an added benefit, congestion charges also help drive operational efficiency through higher utilisation of the public transport network, and reduce or defer capital expenditure on road networks in favour of public transport investment.

The most well-known congestion charge is the London Congestion Charge (see opposite), which was introduced in 2003.[xxv]

Potential Application to Victoria

In the context of Victoria, this mechanism could provide an opportunity to influence the behaviour of private road users by implementing either a cordon-based charge, which could be levied on vehicles entering a given area (such as the Melbourne CBD), or a distance-based charge levied on mileage.

This would generate a significant amount of revenue which could be specifically targeted towards a defined program of public transport investments.

summary

In an environment where there is increasing pressure on governments to deliver sustained and significant transport infrastructure investment programs, broadening the range of options that can support the funding and financing of key projects is paramount.

LONDON CONGESTION CHARGE

The London Congestion Charge was introduced in 2003 in response to increasing public concern over the level of traffic congestion across central London.

The scheme imposes a £10 daily charge for driving or parking a private vehicle within the charging zone between the hours of 07:00 and 18:00 from Monday to Friday.

All net revenue raised through the London Congestion Charge must, by law, be invested to improve transport in London.

In FY 2009–10, the scheme produced a net revenue of £148 million.

The 18 month period of public consultation prior to the scheme's introduction was instrumental in making the congestion charge publicly acceptable.

Source:
Transport for London, www.tfl.gov.uk/roadusers/congestioncharging/6723.aspx

The quality of Melbourne's liveability and competitiveness is connected to the quality of its transport infrastructure. In the past, our transport plan met our transport needs, and it was a key factor in delivering our success. Recently however, our lack of vision in appropriately planning for increasing demand has placed the transport system under stress; thereby impacting our liveability and competitiveness.

The need to plan for the long-term is not a new concept. The current Victorian Government has articulated its priorities in its current submission to Infrastructure Australia. At the same time, the government is considering the next 30–40 years as they develop the Metropolitan Planning Strategy. This will no doubt be supported by a long-term plan for Melbourne's transport networks. The challenge is how to fund these priorities.

Infrastructure is a long-term game. It is expensive and does not become cheaper over time. As this paper highlights, there are a number of ways to pay for our transport requirements, some of which are more controversial than others. While many of the user pay options discussed in this paper may seem unpalatable in the short-term, a visionary approach to funding priority projects now will drive a range of important, long-term benefits (economic, environmental and social) in the future.

This paper has identified a range of ways various jurisdictions responded to the transport challenges they faced. In many instances, advancement for the future has required difficult and occasionally unpopular decision-making to transform the city.

The funding options outlined are by no means an exhaustive list of possible opportunities, and the Committee for Melbourne recognises that many are at times both difficult to understand and unpopular to discuss. Nevertheless, the Committee is committed to driving forward an informed debate on how all Melburnians can work together to solve some of our complex infrastructure challenges.

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case study: Burke Road level crossing – questions for the community

Melburnians have identified the safety and mobility issues associated with level crossings for many years. They impact directly on road and rail operations, while generating broader implications including safety concerns, the economic cost of congestion and lost productivity that can be attributed to operational delays. The problem has increased in recent years due to the strong growth in public transport patronage and the ever-increasing number of vehicles on Melbourne roads.

While the current Victorian Government is acutely aware of this problem and has made a greater commitment to remove level crossings than any other government in recent decades, project costs are prohibitive, and the planned rate of removal is outpaced by demand. Unless new initiatives can be implemented to increase the pool of funds available to invest in transport upgrades like level crossing removal, Melburnians will need to accept the present rate of delivery.

The following case study presents an existing scenario at a current priority site for the Victorian Government. The Committee for Melbourne's objective is to identify the issues currently experienced at this location and others like it, and to create a dialogue about the options to help accelerate their removal.

Location

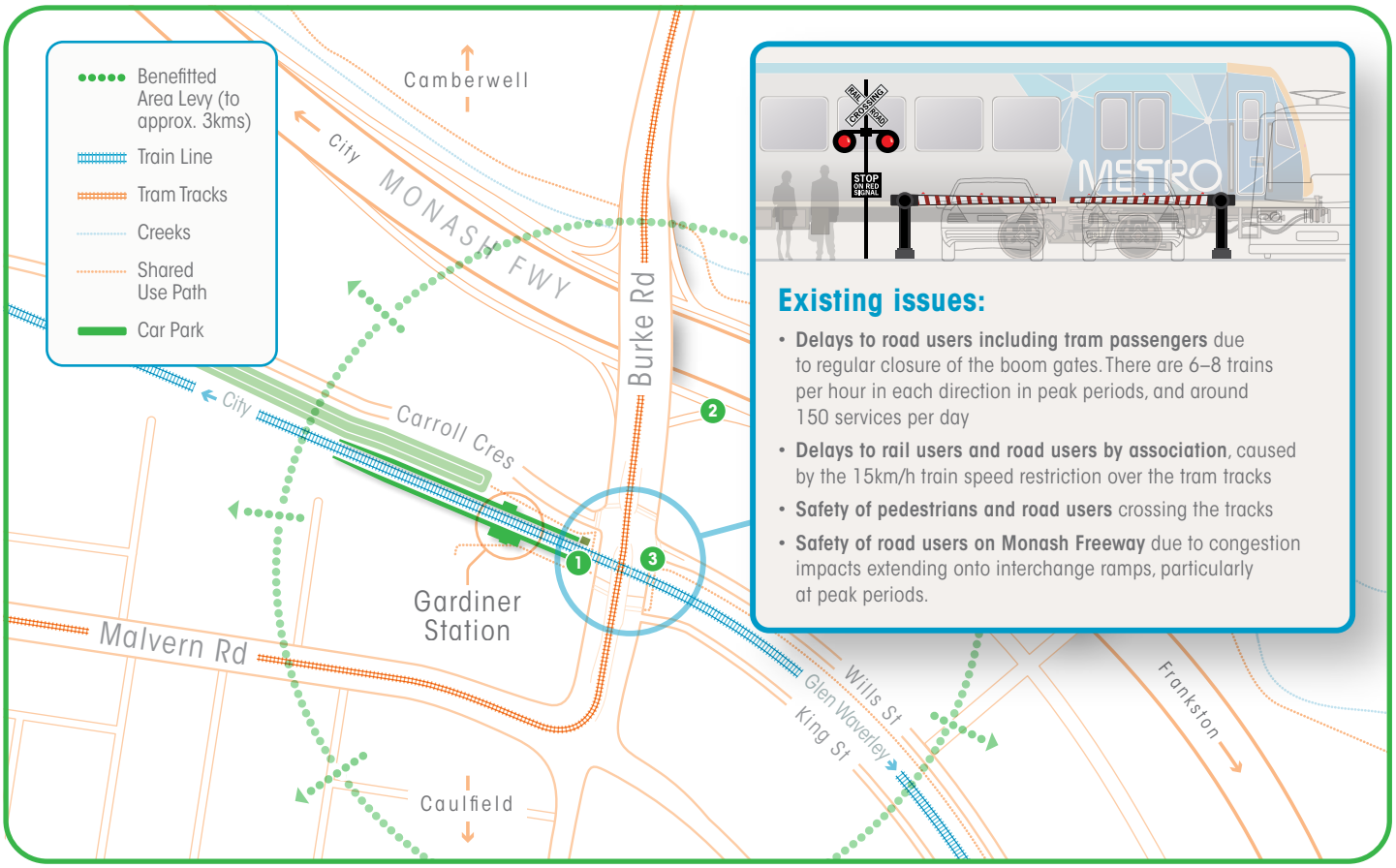
Burke Road in Glen Iris, immediately south of the Monash Freeway (CityLink) interchange and north of the Burke Road and Malvern Road intersection. The level crossing is located on a section of the Glen Waverley Line immediately adjacent to Gardiner Railway Station and on the Route 72 tram line.

Current issues

- Delays to road users including tram passengers due to regular closure of the boom gates. There are 6–8 trains per hour in each direction in peak periods, and around 150 services per day
- Delays to rail users and road users by association, caused by the 15km/h train speed restriction over the tram tracks
- Safety of pedestrians and road users crossing the tracks
- Safety of road users on Monash Freeway due to congestion impacts extending onto interchange ramps, particularly at peak periods
- The cost of staffing the crossing and maintenance of the track work
- Strategic importance of Burke Road as a main traffic route.

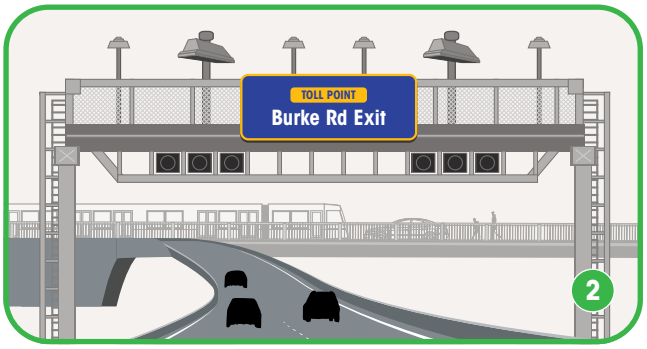
Potential benefits of removal

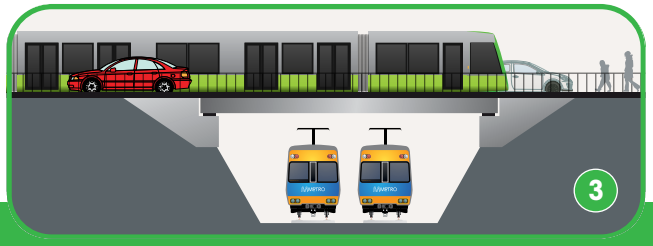
- Community – Reduce noise level, mitigate congestion, improve land use and local amenity, improve safety
- Road – Mitigate congestion, improve safety
- Train – Improve travel times, improve station access and facilities, reduce operating and maintenance costs
- Tram – Improve travel times, improve station access, remove track interface problems.



Existing issues:

- **Delays to road users including tram passengers** due to regular closure of the boom gates. There are 6–8 trains per hour in each direction in peak periods, and around 150 services per day
- **Delays to rail users and road users by association**, caused by the 15km/h train speed restriction over the tram tracks
- **Safety of pedestrians and road users** crossing the tracks
- **Safety of road users on Monash Freeway** due to congestion impacts extending onto interchange ramps, particularly at peak periods.





Possible solutions to level crossing removal:

1. Potential development of station and adjacent land to fund works
2. Potential toll gantry at Monash Freeway off ramp to fund new works
3. Potential application of a Benefitted Area Levy

Questions

1. Do we as a community agree there is a problem at this location and other locations like it?
2. How could we accelerate the improvements at this location or other locations like it?
3. Would we be prepared to do so by making a contribution to the funding? Which mechanism, or combination of mechanisms, would we be prepared to contemplate:
   a) specific levy on surrounding ratepayers to fund the level crossing works?
   b) toll on the level crossing payable by each vehicle which crosses it?
   c) toll on the level crossing payable by each vehicle which uses it to access the M1?
   d) greater redevelopment (with relaxed height limits) in the area surrounding the level crossing with development rights used to help fund the infrastructure?
   e) increases in property rates (due to increased property values) being dedicated to repay financing for the level crossing?
4. If not, then would we be prepared to allow the redevelopment of sites above and/or adjacent to transport stations to help fund improvements?
5. If not, then are we prepared to tolerate this potentially worsening situation?

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COMMITTEE FOR MELBOURNE

3. Excerpt: The Parliament of Victoria's report on the Inquiry into local economic development initiatives in Victoria (2013)

The work of the Committee in the funding of large-scale infrastructure projects has played a significant role elevating innovative thinking within the business community and government.

The Parliament of Victoria's report on the Inquiry into local economic development initiatives in Victoria (July 2013), completed by the Economic Development and Infrastructure Committee, highlights the Committee's significant contribution to the infrastructure funding discussion.

With regard to infrastructure funding the report acknowledges our strong position on finding new funding initiatives that could assist with meeting the funding shortfall, by providing an alternative to a sole reliance on government funding.

As the report states:

"At a public hearing in Melbourne Ms Kate Roffey, CEO of the Committee for Melbourne (CfM), summarised the infrastructure dilemma facing governments in the following way:
… there just is not enough money in the government coffers to continue with our traditional model, which has been that the government pretty much funds everything from an infrastructure perspective: our hospitals, our schools and our transport infrastructure. When you look at some of our major projects at the moment, being in the hundreds of billions of dollars, I think it is time that we as a community need to start having a look at how we actually make some kind of contribution to transport and infrastructure funding ourselves.

The CfM has taken on a leadership role in researching and disseminating information about possible funding schemes for infrastructure projects, including:

- *benefitted area levies*
- *usage taxes or tolls, and congestion charges*
- *value capture mechanisms such as tax increment financing*
- *public–private partnerships*
- *superannuation bonds*
- *developer contributions and growth area infrastructure charges.*

Ms Roffey noted that in the past alternative funding options have been used to complete infrastructure projects in Victoria, such as the benefitted area levy that was raised on businesses in the Melbourne CBD to fund the construction of the underground rail loop. The CfM has argued that benefitted areas levies could again be used to fund infrastructure within Melbourne — such as the Melbourne Metro project — on the strength of recent successful international examples, most notably London's Crossrail project.

Tax increment financing is another value capture funding option advocated by the CfM, which has been used extensively in the US, recently as part of the Dallas Area Rapid Transit development. The CfM noted that although there are a range of funding options, there is no one-size-fits-all approach.

One of the aims of the CfM has been to explore options for increasing citizens' contribution to infrastructure. At the same time, Ms Roffey argued that:

We always have to be careful of direct-pays issues with areas that may need more infrastructure because they are actually low socioeconomic areas. We do not want to be in a situation where those who can afford least are hit with greater charges, so somehow we have to come up with a socially conscientious model let us call it, for want of a better term, that actually allows us to spread out the load a little bit so that it is an equitable access for all.