15 September 2014

Russell Chafer
Committee Secretary
House Standing Committee on Infrastructure and Communications
Parliament House
CANBERRA ACT 2600

Email: ic.reps@aph.gov.au

Dear Russell
Inquiry into Infrastructure Planning and Procurement

Thank you for the opportunity to appear by teleconference before the Committee on 29 August 2014.

There were three issues that AMEC took on notice and offered to provide the Committee with further information, as follows:

North West Iron Ore Alliance
As I detailed in my evidence, the North West Iron Ore Alliance was born out of AMEC`s office as an innovative way to promote collaboration between companies looking to an infrastructure solution in which to reach the market.

The website (http://www.nwioa.com.au/) provides the following additional information: North West Infrastructure (formerly the North West Iron Ore Alliance) is an incorporated joint venture company which represents the interests of its three shareholder companies: Atlas Iron; Brockman Mining; and FerrAus.

North West Infrastructure (NWI) is developing a port facility capable of annually exporting 50 million tonnes of iron ore from the South-West Creek location in the Inner Harbour at Port Hedland, Western Australia. The WA State Government has made this 50 Mtpa allocation to support the development plans of emerging iron ore miners in the Pilbara region.

A group of companies in the mid-west region of Western Australia have also formed the Geraldton Iron Ore Alliance. Further details are available at http://www.gioa.com.au/

Ten iron ore producers and explorers from WA`s Yilgarn Iron province have also established the Yilgarn Producers Association (http://www.yipa.com.au/), and is working towards a 10mtpa port expansion at Esperance in order to stimulate economic development.

Association of Mining and Exploration Companies
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Stranded assets

AMEC`s submission of April 2014 stated '*there are a number of projects involving explorers and smaller emerging miners that do not have access to appropriate infrastructure (such as port, rail or energy), or adequate funding, and are therefore unable to finalise the development to its potential.*

Accordingly, these 'stranded asset' projects are not being deployed to maximum economic efficiency, to such an extent that the regional communities, State and Commonwealth Governments are not enjoying full social, financial and economic benefits and subsequent revenue streams that would normally be available in the short and medium term'.

During the hearing on 29 August, AMEC was requested to provide examples of stranded assets.

In view of the confidential and market sensitive nature of making any such public statements, AMEC is not in a position to identify individual projects that could be considered to be 'stranded assets'.

The Committee could however closely review the circumstances and economic potential of ten company members of the Yilgarn Iron Producers Association (as above). Completion of the expansion and associated third party access arrangements for the Esperance will create the opportunity to unlock the economic and social potential of the region. This will generate significant social and economic dividends for the region, State and Nation.

Contemporary funding solutions

AMEC submission of April 2014 stated '*consideration should be given to increased collaborative funding models involving 'public-private partnerships' and other alternatives (such as superannuation funds, equity participation, special purpose infrastructure bonds, Government underwriting)'.*

During the hearing on 29 August, AMEC agreed to provide some reference papers on various funding options. Attached are two papers obtained from the WA Department of Planning.

If you have any queries on the content of this correspondence please feel free to contact me direct.

Yours faithfully

Simon Bennison
Chief Executive Officer

FUNDING OPTIONS FOR REGIONAL LAND ACQUISITIONS

Western Australian Planning Commission

December 2008

CONTENTS

1 INTRODUCTION

The acquisition of land is a fundamental part of State planning processes. Land is typically purchased for public open space, the provision of transport corridors, environmental and coastal protection, community and economic infrastructure. Without an adequate source of funds the financial capacity and planning capability of the WA Planning Commission [WAPC] and Government agencies which depend on the Commission to make strategic land acquisitions are significantly compromised.

Land acquisitions have become an issue of high strategic importance with the establishment of two regional planning schemes under the *Planning and Development Act 2005.* - Peel Region Scheme (PRS) which came into effect in March 2003 and the Greater Bunbury Region Scheme (GBRS) in November 2007. Both region schemes include reservations over land required for regional open space and infrastructure such as regional roads, railways, education and public utilities. The effective implementation of these regional schemes and to enable orderly planning for rapid growth requires an effective funding arrangement to be put in place for the acquisition of open space and strategic land. Also, it is envisaged that other regional schemes are to be rolled out over the next few years such as Ningaloo.

This submission considers a number of options for strategic land acquisitions under the regional planning framework. The success of land acquisitions for the Metropolitan Region Scheme being funded through the Metropolitan Region Improvement Tax [MRIT] provides a useful and important guide in considering future funding arrangements based on over $1 billion in land acquisitions in the Perth region over 40 years.

2 METROPOLITAN REGION SCHEME AND MRIT

The Metropolitan Region Scheme was established under separate legislation in 1959 and included funding for its implementation by way of the Metropolitan Region Improvement Tax (MRIT) established by the *Metropolitan Region Improvement Tax Act 1959.* Initially, MRIT was levied on all rateable property in the metropolitan area excluding land used for primary production. Subsequently, the tax base has narrowed and MRIT is now levied against all properties that are liable for land tax.

The proceeds of the MRIT are credited to the Consolidated Account under sub-Section 201 (1) of the *Planning and Development Act 2005* and under sub-Section 201(2) an amount equal the amount credited to the Consolidated Account is appropriated and credited to the Metropolitan Region Improvement Fund. Other monies credited to the Fund include proceeds of land sales, rent, borrowings and other payments. The monies are used for strategic land acquisitions in the Metropolitan Region Scheme. The rate of tax prescribed for the MRIT with effect from 1 July 2008 under *Section 10* of the *MRIT Act 1959* is as follows:

Unimproved value of land

Exceeding ($)	Not exceeding ($)	Rate of MRIT
0	300,000	Nil
300,000		0.15 cent for each $1 in excess of $300,000

The rate of tax has varied over the years, starting at 0.2% prior to 30 June 1962 rising to 0.25 % during the seventies and eighties before reducing to 0.15% after 30 June 1993. For the year 2007/08 the rate of tax was 0.18% levied on each $1 of unimproved land value in excess of $250,000. The revenue collected under MRIT in recent years has been:

		$m		
2007/08	**2006/07**	**2005/06**	**2004/05**	**2003/04**
78	65	53	47	44

3 FUNDING FOR OTHER REGIONAL SCHEMES

When the need for additional region schemes was identified in the mid 1990s additional funding for land acquisitions up to $168m was identified, which together with administration and land management costs over 30 years, brought the total funding requirement to $210m. In 1996 the then government approved a 30-year forward funding program for the development and implementation of region schemes from the Consolidated Fund. Funding was approved on an annual recurrent capital payment to the WAPC of $7m. The payments over time have been:

$m			
1996/2001	**2001/06**	**2006/07**	**2007/08**
27	25	7	7

In 2003 and prior to the implementation of the Peel Region Scheme, the issue of funding was reviewed. Financial modelling suggested that a tax levied at the same rate as MRIT would raise $2.2m in Peel and $1.3m in the Greater Bunbury region. These amounts were seen to be insufficient to meet land acquisition and management costs. Consideration was given to the introduction of a State Improvement Tax or extending the existing MRIT and allowing for some cross subsidy from the Perth region to the Peel and (then) proposed Greater Bunbury region. Neither of the proposals was implemented and the status quo maintained.

4 BENEFITS OF A REGIONAL FUNDING MODEL

The future acquisition of open space and strategic land is a liability to Government. The nature of the funding requirement is that funds need to be available for the opportunistic acquisition of land on an ad hoc basis. **Hence, the value in the MRIT funding model is not just the quantum of monies but the certainty, discretionary use and accessibility to take advantage of market conditions and opportunities as they arise.** These funding criteria have been overlooked in the forward funding program of $7m made available for regional land acquisitions.

In April 2007 the WAPC issued a discussion paper supporting the continuation of the MRIT in the context of the then State Tax Review. The arguments were also presented in the WAPC Chairman's Statement in the 2006/07 Annual Report of the Commission. In short, the MRIT allows for the early and strategic acquisition of land for open space and infrastructure corridors at approximately 20 per cent of the cost compared with purchases on a just in time arrangement. In the case of three identified acquisition projects the total outlays in dollars of the day were $34m compared to a cost of $300m if purchased in 2007$. WAPC also argues that the MRIT offers the opportunity to acquire land at a fair price to the seller under the reservation method of the Metropolitan Region Scheme. The alternative is forced selling which would not only be the price at the time of acquisition but a premium paid for loss of ownership above the value of the land and injurious affection.

In addition to these direct financial benefits, the acquisition of land for transport corridors can be considered in the context of public liability and road safety. The uses of MRIT apply to land purchases for road widening and open access around transport corridors and would form part of the safety and liability environment of this infrastructure. There has been no specific costing of the reduction in this public liability creditable to the use of MRIT funds but such a costing would form part of the overall value in the MRIT.

The environmental and social value of land acquisitions under the MRIT is also deserving of recognition. Land is acquired, for example, to protect woodlands in coastal protection.

There are other examples where the Government does not fund its contingent liabilities and instead funds on a pay as you go basis. The Government's superannuation liability is such an example where the Consolidated Fund sector of the Government has an unfunded liability of about $3 billion, paid when employees retire. There have been moves in other jurisdictions to fully fund this liability for prudent commercial reasons e.g. the Commonwealth's Future Fund. However, the nature of superannuation is that the future liability can be estimated with a high degree of certainty and there is little benefit in early funding because the cost is directly linked to employees wages and salaries which are subject to incremental and known change. Hence, this liability is quite unlike the liability that exists for land acquisitions where there is some degree of uncertainty about land availability and a high degree of uncertainty about market volatility. **What is known about the liability is that forward planning allows the State to significantly lower its liability through early intervention in the market.**

In summary, the benefits of creating a regional funding framework for strategic land acquisitions based on the MRIT outcomes are:

- an economic and community value through regional development;

- an economic value in that the monies have a significant beneficial impact on lowering the Government's liability for future land acquisitions;
- an economic and community value in that there is a reduction in public liability arising from safety issues associated with road develop and transport planning;
- an environmental and community value through the protection of open space, land in national parks and coastal areas;
- an economic, environmental and community value through greater certainty across the planning function; and
- a community value through the voluntary acquisition of land rather than forced purchases.

5 STATE TAXATION REVIEW

In May 2007 the Final Report of the State Tax Review recommended that there be further examination of the hypothecation arrangements under the Metropolitan Region Improvement Tax (MRIT), including options for absorbing MRIT into the land tax scale over the longer-term, to be undertaken in consultation with the Western Australian Planning Commission (WAPC) and the Department for Planning and Infrastructure (DPI). MRIT raises an estimated 13-14 per cent of the total combined revenue from Land Tax plus MRIT. Among the submissions to the Review, the Property Council argued for either the abolition or broadening of MRIT and the Master Builders' Association recognized the value in the use of MRIT but argued for its abolition and funding sourced from general revenue. The Property Council also argued for a broadening of the narrow base of land tax but for a reduction in the rate of the tax.

6 FUNDING REQUIREMENT

The WAPC has commenced a costing of the contingent liability for land purchases but has not yet estimated a reliable figure. A special project has been commenced to estimate this figure but will be dependent upon some mapping refinements to correct errors in data sets to enable matching reservations to cadastre and aerial photography to determine whether whole or part properties will need to be acquired (especially for regional road widening).

A ballpark figure for the State is $800m - $1 billion over the next 30 years. In 2007 the current contingent liability for the Greater Bunbury Region Scheme was estimated at $82.4 million over 30 years; funding over the 5 years to 2011/12 is estimated to be $56 million in addition to the $7 million allocated under existing funding arrangements. A commitment has been made to establish a region scheme for the Ningaloo coast and simplified region schemes are also being considered as a way to improve planning outcomes and approval processes in regional areas of high growth.

7 LAND INFORMATION AND MANAGEMENT

An important part of any new initiative for strategic land acquisitions is to have an effective land information and management system on a State-wide basis. Planning and land acquisitions within the Metropolitan Region Scheme have been supported by the Metropolitan Development Program (MDP). The MDP has been the subject of an extensive inter-agency review sponsored by the Infrastructure Coordinating Committee of the WAPC. The recommendations of the ICC/WAPC are for a new State-wide, integrated strategic land and infrastructure staging framework to replace the MDP and that will:

- provide a comprehensive land information and management program across the whole of the State;
- provide the necessary processes to secure and record information on all stages of the land development process;
- consider the integration of the Metropolitan Development Program, the Country Land Development Program and the Industrial Land Development Program; and
- give a spatial dimension to State infrastructure expenditure.

The new land information and management program (called the Urban and Regional Development Program or URDP) is estimated to cost about $2m per year for 5 years and an effective strategy for regional land acquisitions and infrastructure expenditure would need to include funding for the development of this program. Part of the URDP development will be to consider the integration of the Industrial Lands Development Program and the Country Lands Development Program. However, the Country Land Development Program as it stands is based extensively on developers' stated aspirations and has very limited independent analysis. It would require better modelling to be a valuable guide for regional planning.

8 FUNDING CRITERIA AND OPTIONS

An effective funding arrangement would need to meet the following criteria:

- **Adequacy** – funding needs to be adequate for purpose. Current estimates are for an additional $20m per year above the existing CF allocation of $7m per year and the $78m per year collected by the Metropolitan Region Improvement Tax (MRIT) for use in the Metropolitan Region Scheme;
- **Certainty** – land needs to be purchased on both short and long term planning horizons and certainty in the funding arrangements is required to give certainty to the planning processes; and
- **Accessibility** – the WAPC needs to be able to undertake land acquisitions on a discretionary and at times ad hoc basis in order to not only acquire land as it becomes available but also to achieve maximum value in the use of funds.

Funding arrangements that meet these criteria will ensure that the WAPC is able to take full advantage of market conditions and opportunities. The quantum of monies for individual purchases range from $'000 to $'000,000 with expenditure of about $100 million per year on a State wide basis, comprising $78m collected by the MRIT, the current $7m sourced from the Consolidated Fund plus an additional $15m per year over the next five years. The funding options for this additional $15m include:

8.1 Expand the MRIT to a State-wide tax

Based on the previous financial modelling for the Peel and Bunbury regions the expansion of the MRIT to a State wide tax would not raise sufficient funds and would require supplementary funding. However, concurrent with the expansion of the MRIT to a State wide tax would be the removal of the legislative restriction that the tax collected would need to be spent in the Metropolitan Region Scheme thereby giving the WAPC discretion to apply the funds on a State - wide basis, making some of the tax collected from the metropolitan region available to be spent in regional areas.

While expanding any tax would need to be considered in the context of State tax policy, an advantage of the MRIT is that it is a very low impact tax that is largely invisible through the co-collection arrangements with Land Tax. Also, it can be argued that it is inequitable for the tax to apply to the Metropolitan Region and not other regions.

8.2 Abolish MRIT and expand Land Tax

The idea to abolish MRIT and absorb the impost through Land Tax was mooted as a recommendation of the State Land Tax Review. Currently, MRIT would account for about 14 per cent of combined tax revenue; however this share would need to increase to meet the funding requirement on a State-wide basis. Two issues to be considered in this Option are:

- property taxes are under review at a Commonwealth level; and
- the WAPC would have its share of the combined tax subject to an annual determination by Treasury, thereby reducing the certainty of the tax payment unless the distribution of the tax was prescribed by legislation as occurs wit the MRIT.

8.3 Introduction of a Betterment Tax or capital gains tax

Such a tax would apply to capture some of the increased value of land that arises due to planning changes. These planning changes can at times result in significant windfalls to land owners e.g. rezoning from rural to urban. However, in a changing market with rises and falls in value, the application of the tax would not prove to be a reliable source of funding and would require a detailed costing to determine if there would be sufficient funds to meet regional needs outside the metropolitan region. To introduce a new State tax would require legislation.

The proposed new tax would need to be considered in the context of State and national taxation policy.

8.4 Overdraft facility

The idea here is to meet the funding requirement through an overdraft facility. The facility could operate in toto as the only source of funds or supplement the revenue from MRIT. In the event of the abolition of MRIT, an overdraft facility would be a workable funding mechanism as it is available on call and could accommodate ad hoc purchases and with a cap on the facility allow the WAPC to plan ahead within a budget constraint.

The overdraft could be paid for by a) proceeds of land sales and other business revenue arising from MRIF activity and b) recurrent payments or debt forgiveness by the Government in recognition that the overdraft was an instrument of liability management rather than for the purchase of an income producing asset.

8.5 Royalties for Regions Program

Under the royalties for regions policy the State Government has set up three funds:

- the Regional Infrastructure and Headworks Fund;
- the Country Local Government Fund; and
- the Regional Community Services Fund.

The Royalties for Regions funding model is not unlike the Regional Improvement Fund proposal mooted when region schemes were first under consideration and the proposed use of monies could be similar to the use of the Metropolitan Regional Improvement Fund (MRIF) that purchases land for the Metropolitan Region Scheme. **In this context, strategic land acquisitions have become an important part of the Government's infrastructure priority setting and investment coordination and this role needs to be recognised in any funding model for additional infrastructure and community development expenditure in the regions.**

On present indications, the Royalties for Regions Program is to focus on improving infrastructure, providing support to specific perceived areas of service need, improving social equity and progressing selected projects of State significance. The acquisition of land for public purposes and the improvement of planning services form part of the development of community and economic infrastructure and is deserving of funding within the Program.

9 RECOMMENDATIONS

The Government:

9.1 Recognise the need for strategic land acquisitions in the regional schemes as an important part of regional development and infrastructure planning within the context of an integrated regional planning package.

9.2 Agree to expand the MRIT to become a State-wide tax and allow the tax collections to be used on a State-wide basis at the discretion of the WAPC.

9.3 Enable funding through the Royalty for Regions framework, with monies to be paid to the WAPC on an agreed basis.