Mr John Alexander
Chairman
House of Representatives Standing Committee on Infrastructure, Transport and Cities

20 January 2016

This submission is made on behalf of the Land Values Research Group.

We congratulate members of the Committee for taking up this most important question, and submit for your consideration a submission of our recommendations against each of the terms of reference provided in connection with **'Capturing the value of transport infrastructure'**.

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THE CRITERIA

Identifying the likely impact on property values and property-related tax revenues as a result of transport connectivity:

New transport-related capital works should not be undertaken unless they increase real estate values by more than the total costs of construction. This measure of a project's viability has a long history, and engineers and real estate valuers should play an important role in this consideration and assessment.

It is not well understood that the fair-seeming and popular 'user pays' approach for funding infrastructure adversely affects low income earners because it is regressive in nature: road tolls and similar are easier for the wealthy to pay. Therefore, it is more rational to defray construction costs by re-capturing part of the uplift in land values on the basis of the *relative* benefits delivered to *all* those landholders beneficially affected by the capital works. Value capture will also allow for those cases where a project actually *reduces* the value of some properties.

Examining options for the application of value-capture mechanisms to sustainably fund transport infrastructure:

The depreciated optimised replacement cost (**DORC**) mechanism under which Australia has come to operate is beset with inequities which amount to 'super-profits' for developers, i.e. profits over and above the normal risk-adjusted return to capital. In some cases the price placed on a *monopoly* asset, or already fully amortised in *sunk* assets, has wrongly become treated as part of *the developer's* capital base. Whilst the developer is certainly entitled to a

fair return on the cost of his inputs, the receipt of these *additional super profits* represents a costly tax-like penalty upon the community.

Land value taxation (**LVT**) across a whole jurisdiction is arguably the optimal and most efficient approach to value-capture, because infrastructure-led increases in land values will automatically be reflected in relative increases (or decreases) in the market, and do not require subjective judgments - such as the drawing on maps of artificial and often inequitable boundaries for properties deemed to be beneficially affected by the new infrastructure. Improved transport connections will be reflected by valuable economic efficiencies which are taken up instantly in land values, well beyond those margins chosen in inferior techniques to **LVT** which commonly *underestimate* the scope for value-capture.

Considering means, including legislative and administrative actions, by which government and the private sector can best utilise value-capture funding mechanisms:

The shortcomings of the **DORC** model are partly the result of poor legislation, where both those who drafted it and the Courts have been unable to see beyond recovering development costs from *users*, instead of from *all* those beneficiaries who experience an uplift in their land values from an infrastructure project. Clearly, the current **DORC** model, which may even incorporate monopoly value/goodwill and the value of capital created previously, is designed to favour constructors at the public's expense in this equation. As this is not optimal cost pricing for *both* parties, it is recommended that new legislation for upgraded transport efficiency should specifically *preclude* the **DORC** mechanism for assessing developer input.

On the other hand, **LVT** is patently fair, and legislation and administrative costs for value-capture are minimal under this mechanism. Existing municipal revaluations instantly and automatically incorporate the relevant uplift (or decline in some cases) in land values, from the time a transport capital works program is first proposed, through its development phase, to completion, and beyond. The capital cost of a transport project should be paid off over the life of the infrastructure via the municipal rating system or an 'all-in' assessment at state level. (A simple supplement to existing land tax regimes is inappropriate as these have exemptions, thresholds, multiple rates and aggregation provisions which of course would grossly distort the equitable capital cost recovery of a project.) Under the broader LVT cost recovery model, landowners spread the cost over each successive landholder-beneficiary, as was commonly the case for infrastructure development conducted by our forebears in the past with far lesser population. It is only over the last forty years, since private rent-seeking in 'profit rents' from land and natural monopolies has become increasingly fashionable, that the funding of infrastructure has become something of a mystery and particularly problematic for governments and communities. The **DORC** mechanism, particularly when used in conjunction with user pays fees, represents an expensive and clumsy departure from **LVT** techniques used in bygone days. Not all old ideas are bad ideas and, with site values assessed against every property in Australia - as compared to the US and UK where they are not assessed at all - the nation is placed in an enviable position to be able to employ **LVT** for new transport infrastructure.

Considering the appropriate roles of each of the three levels of government in the establishment of sustainable value-capture funding mechanisms for planning and infrastructure construction:

It is arguable that a new rail line in Victoria may have residual economic benefits in, say, New South Wales (NSW) or South Australia (SA). These may translate into an increase in land values which, although they are unable to be *separately* assessed, is nevertheless represented to *some* extent in the site values of NSW and SA. Therefore, a case may be made that value-capture could be administered at the federal level for major projects. As this would require a costly new bureaucracy, however, capture at the state level is recommended as the superior approach – and it may be noted that the states already use municipal site values for land taxing purposes. Capture at the municipal level, in conjunction with existing council rates, may be suitable for lesser transport initiatives, but as these, too, will often experience 'overspill' into adjoining municipalities, state governments remain the most administratively-efficient option for planning, construction and capture.

Studies show land-based revenues to be the most efficient and to carry minimal deadweight. Therefore, as a government selling point, the 'revenue bonus' from the **LVT** value-capture model would permit at least for partial reduction of more costly, inefficient and inequitable state taxes, such as stamp duty on property conveyances. It is impossible for landholders to mount a case they should not be required to repay over the life of the infrastructure a portion of the uplift in their land values the infrastructure project has delivered to them – particularly as genuine municipal hardship cases are currently given concessional treatment, and councils would convey these to state governments where the state becomes the relevant value-capture jurisdiction.

Examining any international experiences of the delivery of high speed rail projects by value capture methods and the impact of high speed rail on city and regional development:

To make a point here, there is an interesting analogy can be made between international high speed rail and the high speed elevators in new multi-storey buildings in our cities. Just as it would be silly to have user pays fares for the use of elevators so, too, would it be nonsensical to expect fares to carry the whole burden for the construction costs of high speed rail. The rent paid by tenants of multi-storey offices and apartments naturally *include* the use of elevators - and municipal rates and land taxes similarly notionally allow for capital costs of public works to be sunk over the term of their life. High speed rail reduces clogged freeway/tollway traffic via airports, and, assuming proper cost/benefit analysis has been undertaken, the economic benefits will be encapsulated in the rising land values conferred by these greater efficiencies. Australia's happier situation than other countries in having a site value assessed against every property should obviously be beneficial when it comes to city or regional public infrastructure, because site values reflect the entire aggregate of a multitude of factors affecting the value of each site: its relative size, shape, topography, proximity to the city, to shopping facilities - and to public transport. The failure of Australian public policymakers to comprehend this point has witnessed a curious retrogression into the selling

of our natural monopolies to private rent-seeking entities in order to be able to construct necessary infrastructure. It appears to be governments of all persuasions foremost criterion to make these costs disappear from the public balance sheet and to leave the excessive bill with the Australian community, when the land rents these generate could have been captured via **LVT,** at no net cost to the public. In this respect **LVT** 'self-funds' infrastructure, and Australia already has the administrative framework in place for value-capture to service these capital costs. Therefore, there is no need to look overseas for solutions when we should be demonstrating the value-capture benefits of **LVT *to*** our overseas cousins!

Examining methods of implementing value-capture in both greenfield and brownfield developments:

Once the public realises it has a vested economic interest in unclogging city roads and bringing about efficient rail connections, it will acknowledge the benefits of developing public transport to greenfield sites to which it should contribute on a 'benefits received' basis. **LVT** is a most effective catalyst, both in developing these new locations and redeveloping existing brownfield sites. Assigning long term rights and excessive returns to private rent-seeking companies over and above cost of construction plus fair profit is to act contrary to the public interest. This submission holds that the balance between private and public interest has been lost in recent times, favouring developers to whom the public has been providing 'super profits' at its own expense. This needs to be remedied and **LVT** is the preeminent capture mechanism to do this.

Examining ways to capture future value opportunity when reserving transport corridors:

Just as the share market rapidly prices in the pluses and minuses that daily arise in relation to public companies, a feature of land prices is the nature in which they appear to *anticipate* announcements relating to the reservation of transport corridors. **Land value taxation (LVT) is a perfectly immediate vehicle with which to manage the market for Australia's transport infrastructure.**

FINALLY

It is to be expected that there will be submissions made to the Standing Committee from instrumentalities or public companies which will provide greater weight to their own particular interests than to those of the general public. These will incorporate unnecessary complexity and confusion inherent in the **DORC** or other lesser models, and it will be noted that the unbalanced self-interest of these comes at *an additional cost* to the general public. The Land Values Research Group trusts the Committee will arrive at the conclusion that **LVT** has fairness and the public interest *at its heart,* and that it is indisputably the most efficient mechanism for capturing the value of new transport infrastructure.