IPART submission

We commend IPART for engaging in this critical role - of identifying the external benefits of public transport to the wider community.

Our submission is motivated by our desire for a closed loop system of public finance for public transport. This is best summarised by comparing the MTR corporation, which operates train networks in both Hong Kong and Melbourne. In Melbourne they required $1.2bn in public subsidy for 2012. In Hong Kong, they made a $2bn profit in the same year.

The secret to MTR's success is revealed in recent NSW experiences with the Dulwich Line light rail extension.

The public could enjoy more public transport at a lower overall cost if the loop was closed between public financing and private profit. The Inner west light rail extension from Lilyfield to Dulwich has seen property (read land) values almost double. The realestate.com.au website states that property values increased from $756,000 to $1.3m in just 9 months. If land values are proven to have doubled by the NSW Valuer General, the ability to finance more infrastructure from this uplift is again reminded to the public.

The $176 million Lilyfield light rail extension could have been financed by engaging in a process of value capture to recoup the public investment. As an example, at an average $635,000 uplift per property, the increase in land values of just 277 households could pay for the light rail extension. A fairer system is possible though.

This system would see Infrastructure Bonds sold to the market to finance the build. Over the next 15 - 20 years, property owners in the region would repay the bond holders as a thank you for the added amenity this adds to locational value.

Considering that thousands of dwellings exist along the light rail, the IPART must quantify the leakage from public to private in any calculation of the need for public subsidy.

The WA government has benefitted from a Metropolitan Regional improvement Tax since the 1950s at just a 0.15% on all land in the metropolitan area. Those who benefit from new infrastructure pay more. This is known as value capture. Value capture should cover the majority of the fixed costs, with the marginal operational costs covered by fares.

From the relevant material IPART has released, leakages from the public purse into private pockets (such as a Lilyfield extension) are leading to a loss-loss-loss for the community. They lose on the public financing of the built infrastructure, the loss of the capital gains to the private owner and then the PT subsidy that this inquiry is so concerned about.

James Bradfield, the noted Sydney engineer behind the building of the Sydney Harbour Bridge, was instrumental in utilising a similar value capture mechanism. From the Sydney Harbour Bridge - Report on Tenders, p58 Bradfield writes:

"…it has almost invariably been forgotten that not the people of Australia nor of New South Wales are paying for the bridge, but the 91,361 taxpayers in the city of Sydney and the Northern Suburbs, who paid the tax last year and will shortly again receive their assessment notices from the shires and municipalities defraying the municipal portion of the cost.

And on p52:

"Last year the Land Tax returned £114,000 and the years 1924, 1925 should return £133,000 each, a total of £380,000 up to the end of 1925. The expenditure up to the same date is estimated to be £392,721, so that the land tax will practically pay for construction but not for land resumption. "

This quote highlights the costs upon the public purse of land purchases and also the potential funding opportunities that await a system of value capture - the modern planning term for land tax and/ or betterment levies.

Such a mechanism has the lowest burden of taxation. By utilising public debt (infrastructure bonds) the capital can be raised at the lowest possible cost, often a 2% interest discount on the private market. Repaying the bond holders via a municipal rating system on the land component acts with greatest efficiency by:

- removing the damaging lump sum costs that have been imposed on the current generation of home buyers via 'developer charges'
- encourages the efficient use of land around infrastructure hot spots, rather than incentivising pre-emptive land speculation
- widens the tax base
- spreads load over entire community that benefits, not just the commuters
- develops economic democracy principles - those that benefit the most, pay the most.

The cost of raising funds must be levelled at the most efficient level, not the least. Raising finance via PPP mechanisms on the open market must be discouraged as an uneconomic vehicle. The repeated failure of infrastructure financing in Sydney (Cross City & Lane Cove tunnels) and Brisbane (Clem Jones & Airport link) signposts what should be the end of the user pays model.

Whilst it may be found that only 21% of Sydney citizen's are regular train users, property owners thoughout Sydney benefit from lower congestion and greater amenity from the potential use of PT.

History

The use of value capture to harness some of the economic rent from public works to pay for development has been an important part of the financing mix for centuries. Whilst we believe the economic rents are capable of financing the entire development, it is often noted that value capture accounts for 25-30% of a project's cost. Melbourne's City Rail Loop was 25% financed as such, and the Sydney Harbour 30%.

In 1970s NSW, the State Planning authority raised a 30 % betterment levy on land rezoned from rural to urban uses in the Sydney metropolitan region, in order to fund sewerage works and infrastructure.

Western Australia has Australia's longest running value capture mechanism with the Metropolitan Region Improvement Tax, in place since the 1950s. This ensures a 0.15% levy on the unimproved value of land in the Metropolitan region. This has been used to finance the public purchase of land for use as parklands, transport corridors and infrastructure sites. Notable examples include the government buy back of the Swan River foreshores, and the purchase of land for the Graham Farmer Freeway, for a new underground station at 140 William Street, and for acquiring sections of land for the Mandurah rail corridor. Read the WA Planning Commission on the Case for the Metropolitan Regional Improvement Tax.

Read more historical examples both in Australia and overseas

Public Advocates

The economic efficiencies are unparalleled. What is needed is a concerted public education program highlighting the benefits of value capture.

Former Lord Mayor Lucy Turnbull stated in the AFR:
"You could argue that property owners are getting a windfall gain from the provision of infrastructure without making some kind of contribution from the property value rise that they enjoy," Mrs Turnbull said. "In an ideal world, they would pay a fair and reasonable component of the infrastructure which they directly enjoy. You couldn't argue that's not a fair proposition."

Additionally, from the AFR:

Bob Nanva, the national secretary of the Rail, Tram & Bus Union, said it was “vitally important that the government ensures the public captures the increased land value that in this corridor (Sydney’s north-west), not just the property developers”.

Professor Peter Newman, former Infrastructure Australia Board member states in this radio interview that ‘Value Capture is world’s best practise as a mechanism for infrastructure financing’.

The Vancouver document for the establishment of the United Nations stated “the ability of cities to finance their needed infrastructure will depend . . . on their ability to capture a portion of these windfall gains” “and channel them into infrastructure finance”.

“Land-based financing has become an important element of urban infrastructure finance” World Bank – George E. Peterson (2009).

Conclusion

If the agenda of IPART is to reduce the role of public taxpayers in subsidising commuters, then they should only engage in such activity by taxing those who own the prime locations to such development. As the ICAC investigation has revealed on so many fronts, that is where the real public subsidy occurs which in turn distorts so much public policy.

Hong Kong’s MTR Corporation has paid dividends to its investors for over a decade. The external costs to the taxpayer of ignoring the value capture system must be considered.

A removal of the subsidy to landowners delivered by public works would enable more PT to be built at a lower cost.

Quantifying the locational value windfalls that land values represent is a key step in measuring the external benefits that PT delivers to the community.

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