

Infrastructure Partnerships Australia

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16 March 2016

Michel Masson
Chief Executive
Infrastructure Victoria
Level 34, 121 Exhibition Street
Melbourne, VIC 3000

Dear Mr Masson,

RE: SUBMISSION TO INFRASTRUCTURE VICTORIA'S LAYING THE FOUNDATIONS PAPER

Infrastructure Partnerships Australia (IPA) is pleased to provide input to the development of *Infrastructure Victoria's* infrastructure strategy, and specifically the discussion paper *Laying the Foundations: Setting objectives for Victoria's 30-year infrastructure strategy*.

From the outset, IPA strongly supports *Infrastructure Victoria's* establishment, which we hope will assist to ensure more independent, evidence-based decision-making on the State's infrastructure priorities. The over-politicisation of infrastructure has been an unwelcome feature of Australia's approach to infrastructure in recent times, which damaged Victoria's – and indeed Australia's – reputation as an investment destination.

In respect to the *Laying the Foundations* discussion paper, IPA welcomes the recognition of the funding challenge inherent to infrastructure, and the awareness that all infrastructure funding must ultimately come from the community.

We thus welcome *Infrastructure Victoria's* willingness to explore different funding models for infrastructure, like direct and indirect user payments for road and public transport; beneficiary charges such as land value uplift, developer contributions and betterment levies; as well as privatisation of existing assets.

Overarching remarks

We note that the objectives and needs identified in *Laying the Foundations*, once final, will form the foundations of *Infrastructure Victoria's* 30-year strategy and that *Infrastructure Victoria* will identify solutions and provide options for addressing these objectives in due course.

As such, we look forward to consulting further with *Infrastructure Victoria* regarding the solutions and options for meeting infrastructure needs when the third and fourth papers in this series are released later in 2016.

For now, we commend *Infrastructure Victoria's* interest in engaging with stakeholders and the public in producing a comprehensive, non-partisan strategy that looks to the future, taking into account the changing economic, environmental and societal context for Victoria over the next three decades.

IPA supports the draft objectives and needs in general, and is particularly interested in providing support and assistance for the achievement of draft objectives three (reduce disadvantage), four (enable workforce participation) and five (lift Victoria's productivity).

We are particularly interested in working with *Infrastructure Victoria* on the development of solutions for the following draft needs, identified in the discussion paper:

- Addressing housing affordability challenges with better social housing;
- Supporting changing approaches to social service and justice delivery through infrastructure;
- Providing access to the diversity of employment opportunities offered by the central city;
- Providing better links to non-central city employment centres;
- Improving the efficiency of freight supply chains through infrastructure; and
- Moving people to and from airports more efficiently.

IPA's policy programme is aligned with the objectives in general but particularly to those listed above and, as such, we are well positioned to provide policy support and input.

Funding Challenges

Below are our recommendations of some of the necessary approaches and reforms that will allow Victoria to surmount the funding challenges it faces, and to ensure that Victoria gets the infrastructure it requires. In particular, we urge *Infrastructure Victoria*, as part of this discussion, to consider:

- Road pricing
- Value capture
- Asset recycling

Each of these issues will be briefly outlined below.

Road pricing

The case for reforming Australia's system of road user charging has now been well established by a series of contemporary studies and works.

We wish to draw your attention to our research paper, *Road Pricing and Transport Infrastructure Funding: Reform Pathways for Australia*, which can be accessed here:

<http://www.infrastructure.org.au/Content/RoadPricing.aspx>

In that paper, IPA and Australia's peak motoring organisations – the AAA, NRMA, RACQ and RACV – together developed a range of fundamental principles, allowing us to undertake an options analysis for potential reform pathways.

Our paper finds that the current approach is demonstrably unable to efficiently sustain the capital and recurrent funding requirements across the transport network; to efficiently allocate capacity; or to equitably apportion the costs across users.

Our analysis ultimately identifies a whole-of-network, all of light vehicle fleet pricing model, that we term the Universal Road User Charge (URUC).

The report models the price impacts of a transition to a hypothetical whole-of-network road pricing system across three different user types. The modelling indicates that the greatest benefits of a move to direct user charges for light vehicles would accrue to low-impact urban road users and drivers in non-capital cities and regions; while high impact users, who drive during peak periods in urban centres, could expect to incur charges that better reflect their impact on the network.

These findings are important because they demystify the concept of road user charging and show that under a considered scheme, low impact users would pay less, high impact users would pay more, and all users and the economy more broadly would benefit from a more efficient road network.

Value capture

The renewal of interest in value capture models presents a timely opportunity for *Infrastructure Victoria* to examine where there may be an enlarged role for additional property development charges and/or additional property taxation, to assist with the overall shortage of funding capacity for infrastructure; and to increase the incentives for good projects and good planning.

IPA supports the concept of value capture. However, value capture should only ever be seen as a partial funding mechanism – it should not replace traditional funding sources.

Well applied, value capture can provide a functional linkage between land and infrastructure development; could serve to increase overall infrastructure funding; and can help the already-stretched taxpayer to share in the additional private value that is created through public infrastructure investment.

In the case of land use policies, upfront contributions are sought from developers to help fund the development, and government profits on value uplift of land can be reinvested into new infrastructure projects. In the case of taxation mechanisms, an additional levy is charged to properties in the surrounding area – this can either be used to partially fund or support financing for the development.

However, this submission urges *Infrastructure Victoria* to be realistic about the practical limitations on value capture as a funding source; to ensure value capture does not pollute project prioritisation, design or selection incentives.

Asset recycling & associated market reform

For commercially viable infrastructure markets, the earliest and least costly transition to an efficient, competitive market should be a key objective for government.

Efficient, competitive markets for utility and transport infrastructure are critical to Australia's economic growth and productivity as these sectors underpin all forms of social and economic activity. In short, the better these markets function, the greater the social and economic dividend.

The impact of continued government participation in commercially viable infrastructure markets extends beyond capital opportunity costs; it also locks-in economic inefficiencies. Addressing these economic inefficiencies across utility and transport infrastructure markets, through asset divestments and associated regulatory reform, would deliver clear economic and productivity benefits.

Improvements in the cost and efficiency of these sectors would have a considerable flow through impact on national productivity and economic growth. For instance, this would mean getting exports to the

nation's ports more quickly and cost effectively; reducing the personal costs and freight costs of traffic congestion; and maximising downward pressure on utility bills.

Infrastructure Victoria should identify infrastructure assets to be sold or leased, on a rolling basis over time, as assets and markets mature. In this regard we encourage *Infrastructure Victoria* to consider asset and associated regulatory reform in urban water. Our 2015 report, *Reforming the Urban Water Sector*, can be accessed here <http://www.infrastructure.org.au/Content/Reformingtheurbanwatersector.aspx>

Concluding remarks

We look forward to reading the next two instalments of *Infrastructure Victoria's* 30-year infrastructure strategy, especially the draft strategy outlining proposed recommendations in the third quarter of 2016. We commend *Infrastructure Victoria's* efforts to date in preparing the 30-year strategy, and are excited to contribute further to the process in due course.

Should we be able to provide additional information please contact our Policy Officer, Alice Boyd, on (02) 9152 6026 or at alice.boyd@infrastructure.org.au.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'B. Lyon', written in a cursive style.

BRENDAN LYON
CHIEF EXECUTIVE OFFICER

