

# Value capture road map

Value capture methods are not well understood or widely practiced in Australia. Some of the reasons for this include:

- Institutional resistance by Commonwealth and state agencies
- Misunderstanding and / or misapplication of key value capture concepts, methods and success factors
- The need for new enabling legislative and governance arrangements at the state and local government levels

Urban issues have lost traction at the Commonwealth and state government levels. There is a pressing need for the Commonwealth Government to provide leadership on urban issues and to refocus attention on the important roles played by cities in the national economy.

Pilot programs provide a practical, low cost approach for government agencies and stakeholders to consider value capture methods as a funding supplement to transport infrastructure and urban renewal projects. Pilot programs are proposed as a means of assessing the potential opportunities and barriers to value capture programs in Australia.

## Recommendations

1. The Commonwealth Government should establish a Minister for Cities and Urban Development in recognition of the key role that cities play in the national economy. The Ministry should work with state planning and infrastructure agencies to set national standards and guidelines, support research on national urban policy issues, and develop model legislation for state, territory and local governments.
2. Commonwealth and state governments should undertake practical research into value capture methods as a funding supplement for transport infrastructure and urban renewal projects. This could be accomplished in part by establishing pilot programs in conjunction with state agencies, local councils, professional associations, research institutions and the private sector. The aims of the pilot program should be to;
  - Provide a consistent approach and common guidelines for considering and evaluating value capture and related funding and financing reforms.
  - Develop a national forum and database for sharing research and information on urban funding and financing reforms.
  - Develop model enabling legislation to assist state and local government, urban renewal authorities and other stakeholders considering value capture methods.
3. Commonwealth and state treasuries should redouble efforts to implement infrastructure funding and financing reforms recommended by the Productivity Commission in its 2014 Public Infrastructure Report and by Infrastructure Australia in its 2013 National Infrastructure Plan to maintain Australia's global competitiveness and reduce our growing infrastructure backlog.

<sup>i</sup> Council of Development Finance Agencies (CDFA) 2009, Advanced Tax Increment Finance Reference Guide, Columbus, Ohio USA

<sup>ii</sup> McIntosh, James, et al

To obtain the full report, call or write to:



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# VALUE CAPTURE ROADMAP EXECUTIVE SUMMARY



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## Introduction

Well-planned and maintained public infrastructure is the foundation of modern society. It supports productive enterprises, enhances quality of life and underpins economic prosperity.

*Value Capture Roadmap* examines the potential use of value capture to contribute to smart infrastructure decision-making and investment. The report draws from experiences in New South Wales (NSW), but the examples, key findings and recommendations are relevant throughout Australia and internationally.

The purpose of the report is to raise awareness and stimulate discussion of value capture as an alternative infrastructure funding and decision-making tool to help fill the infrastructure funding gap in our cities. The report focuses on urban transport infrastructure and its role in supporting “smart” urban development, often referred to as “integrated land use and transport planning”. Integrated land use and transport planning has the potential to help fund infrastructure investment and achieve other complementary public benefits.

## What is value capture?

Value capture funding methods identify and collect an equitable portion of the value released through new zoning and other public improvements so the communities that pay for them can share in the value created. There are a number of proven approaches used both in Australia and overseas to share the increased value created by infrastructure. Funds collected from these approaches are typically deposited into dedicated accounts for a set time period and contribute to the cost of infrastructure and other improvements to the civic realm.

Value capture is not a new tax. In its purest form, it allocates the uplift in benefits from public investments in ways that do not affect current or future tax rates. The “beneficiaries pays” principle lies at the heart of successful value capture programs. Importantly, these programs capture revenues that would not otherwise exist without the public investment, and can permanently increase the levels of revenue to taxing authorities<sup>i</sup>.

International experience demonstrates that well planned public transport can increase land market values by up to 50%<sup>ii</sup>. Value capture programs hypothecate a portion of this value to help pay for the infrastructure. The extent of value uplift varies depending upon the nature of the infrastructure, the distance of property from the infrastructure, accessibility and urban design amenities, and other factors. The sources of revenue used in overseas value capture programs include:

Retail sales taxes (GST)	Transfer (stamp) duty	Payroll taxes
Property taxes	Council rates	Development contributions
Voluntary planning agreements	Special rates	Sale of bonus gross floor area
Sale / lease of air rights	Sale / lease of development sites	Parking levies
Hotel taxes	Capital gains taxes	Property development

Value capture programs can make significant contributions to transport and urban renewal programs. For example, approximately 27% of London’s Crossrail project and over 30% of Denver Union Station redevelopment are being funded with these methods.

## Why we must consider value capture now

There are a number of compelling reasons why value capture funding methods should be considered now. Fundamental changes are occurring in global and domestic economies that will influence Australian society well into the future. These include:

- A steady decline in Australia’s traditional sources of export revenue and jobs, particularly manufacturing and mining.
- A significant forecast increase in worldwide demand for natural gas, tourism, agriculture, healthcare, international education and wealth management. Australia holds competitive advantages in each of these sectors.
- Urbanisation, with the fastest growth in cities occurring among Australia’s Asian trading partners. Asian cities will increasingly compete with Australian cities as providers of high value products and services, eroding our historic competitive advantages.
- Australia’s infrastructure funding needs exceed the capacity of traditional funding sources. We need to adopt new funding methods to fill this gap.
- Demographic trends, including an aging workforce and increasing dependency ratios, will become an increasing drag on the economy. These challenges can be addressed by making our cities more competitive and our workforce more productive.

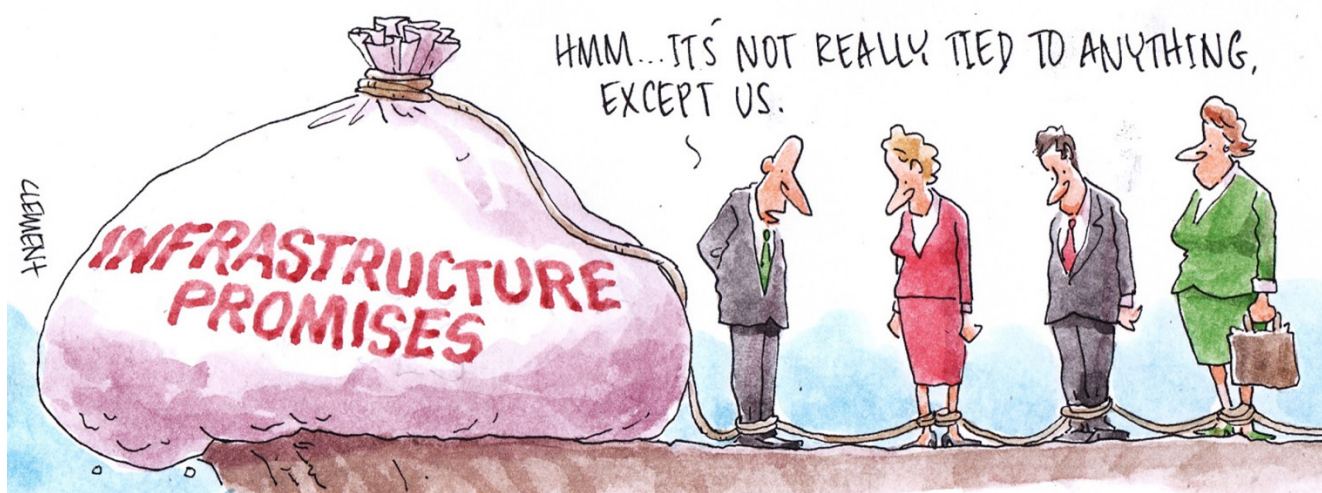
In order to offset these trends, Australia must make its cities more competitive on a global scale. Infrastructure funding and delivery reforms can play important supporting roles in these efforts.

## Key success factors

Key success factors and guiding principles for an Australian value capture program are:

Key success factors	Guiding principles
Comprehensive, longer term planning and funding strategies	<p>Infrastructure and urban renewal projects and programs supported by value capture methods should be based upon a minimum time horizon of 20 years to allow for funding sources to realise their full potential.</p> <p>Projects and programs should be fully costed, conservatively underwritten and include detailed financial modelling. Funding sources should be locked in for the life of the program to provide stable and secure revenue sources.</p>
Genuine and robust stakeholder engagement	<p>A genuine and robust public consultation program, developed and implemented by specialists in that field, is an integral part of successful value capture programs. Business and community participation and membership - at various levels in consultative committees and boards - and involvement in the decision-making process should be encouraged.</p>
Precinct-based planning and funding	<p>Value capture programs should be carefully ring-fenced within a defined precinct. The precinct should encompass complementary community activities and assets that would benefit from the infrastructure investment, and be leveraged to generate wider economic benefits. Typically, these precincts are contained within a kilometre radius of the transport improvements.</p>
Transparent and balanced governance frameworks	<p>Local government in NSW should become a key partner in precinct-based infrastructure and urban renewal planning, decision-making, funding and delivery. A general transfer in responsibilities and powers from state agencies to geographically larger, financially stronger and better resourced local government councils for planning, decision-making, funding and delivery of urban infrastructure should be pursued as a mid to long-term policy objective.</p>

Understand and balance risks and reward	NSW Government should reinvigorate infrastructure reforms as recommended by the Productivity Commission and Infrastructure Australia, and seek partnerships with the private sector based upon an equitable balancing of risks and rewards.
Use incentives to attract private investment and better design	Successful value capture programs use financial and other incentives to attract private investment and engage businesses and residents in related programs that improve property values, neighbourhood amenity and economic activity. In this way, value capture programs can generate broad community benefits and become self-funding.
Stronger urban renewal powers	Local government and urban renewal agencies need stronger powers if they are going to make meaningful improvements in housing approvals and affordability, infrastructure investment, and broad scale regeneration of industrial precincts, commercial centres and neighbourhoods. Achieving such stronger powers will require: <ul style="list-style-type: none"> <li>• Concerted public education and engagement efforts to bring the voting public along with necessary changes</li> <li>• Changes to existing planning and local government legislation to strengthen urban renewal powers</li> <li>• New legislation to expand funding and financing options for local government and urban renewal agencies.</li> </ul>
Recognise and incorporate wider economic benefits	It is recommended that Commonwealth and state governments collaborate to develop a common framework and commission pilot projects to assess the wider economic benefits of infrastructure and urban renewal projects. Pilot projects should be undertaken in partnership with state and local government agencies, professional associations, research institutions and the private sector to develop the legislative and financial arrangements needed to harness these benefits.
Focus on value rather than cost	Commonwealth, state and local agencies with the responsibilities for funding, developing, evaluating and delivering infrastructure and urban renewal should incorporate value-for-money guidelines in project appraisals as proposed by Infrastructure Australia and Infrastructure NSW.
Secure consistent and coordinated leadership	Consistent and coordinated leadership is non-partisan, evidence-based and in the long-term public interest. The leadership model for a given project must be tailor-made and established before the project is introduced. By definition, the leadership team must be small, but have a broad mandate and be composed of high-calibre and proven experts.



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