



VALUE CAPTURE DISCUSSION PAPER

HOW CAN WE MAKE BETTER USE OF VALUE CAPTURE?

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ABOUT US



Consult Australia is the industry association representing consulting firms operating in the built and natural environment sectors. These services include design, engineering, architecture, technology, survey, legal and management solutions for individual consumers through to major companies in the private and public sector including local, state and federal governments. We represent an industry comprising some 48,000 firms across Australia, ranging from sole practitioners through to some of Australia’s top 500 firms with combined revenue exceeding \$40 billion a year.

Some of our member firms include:



About Consult Australia

Consult Australia welcomes and supports the Federal Government's discussion paper on Value Capture and we look forward to working with the Federal Government as they consider new and innovative ways of paying for infrastructure.

Consult Australia is the peak industry body representing consulting companies that provide professional services to the built and natural environment. These services include design, technology and management solutions for individual consumers through to major companies in the private and public sector including local, state and federal governments.

Consult Australia represents over 270 companies, from large multidisciplinary corporations to small niche practices, collectively employing over 50,000 staff. We represent an industry comprising roughly 48,000 firms across Australia, ranging from sole practitioners through to some of Australia's top 500 firms. Collectively, our industry is estimated to employ over 240,000 people, and generate combined revenue exceeding \$40 billion a year.

Consult Australia's vision is to drive business success for consulting companies in the built and natural environment. We are dedicated to providing support and advocacy to our members with integrity, commitment, evidence based positioning, responsible actions and respect.

In providing comment on the discussion paper, Consult Australia has not answered every question, but rather provided an overview from our industry's perspective. Furthermore, we recommend that the questions raised in the discussion be further investigated and submit that the government explore mechanisms to ensure those questions can be met with the appropriate level of detail.

Consult Australia welcomes the opportunity to comment on the Australian Government's discussion paper and provide input on innovative new ways of funding and financing transport infrastructure.

Executive Summary

Well-planned and maintained public infrastructure is the foundation of modern society. It supports productive enterprises, enhances quality of life and underpins economic prosperity. Our infrastructure networks provide access to employment, facilitate social inclusion, and allow our cities to grow.

Increased infrastructure investment that improves economic capacity and productivity must be the first policy response to the challenges arising from increasing congestion and declining quality of life in Australian cities, and will have the added benefit of achieving a more sustainable future.

Value Capture has the potential to contribute to smart infrastructure decision making and investment.

The Government's recognition of the vital role of infrastructure investment in boosting productivity is well documented. However, in the face of increasing global instability, the capacity for a strong pipeline of guaranteed infrastructure investment is particularly important to safeguard jobs and related industries. Considering new and improved mechanisms for paying for infrastructure to support the critical role it plays in boosting productivity must be a priority.

Taxes are no longer enough to pay for the infrastructure we need to maintain our high standard of living. Governments need to consider new and improved funding mechanisms, such as value capture.

Governments must overcome longstanding resistance to newer ways of paying for infrastructure, acknowledge that there is no "one size fits all" solution, and understand that any new arrangement must be equitable while still raising the level of funds needed.

Value Capture has been used to great effect in many jurisdictions throughout Australia as well as internationally. As the discussion paper highlights value capture mechanisms contributed 32% towards the cost of London's Crossrail project and other major infrastructure projects around the world have embraced value capture to help fund the infrastructure. There is no reason why value

capture cannot be used to similar affect in Australia to help contribute to the cost of providing major infrastructure projects.

Thus far in Australia, institutional resistance, including a failure to properly understand value capture, has meant it hasn't been used to the extent it should have. Although we acknowledge the theory of value capture is becoming more widely embraced in Australia it still is not widely understood by policy makers, industry and the public.

Consult Australia has long advocated for the use of alternative methods to fund infrastructure including the use of value capture. Additionally, we have long advocated value capture as an alternative infrastructure funding and decision-making tool to help fill the infrastructure funding gap in our cities.

This submission will focus of the role the Federal Government can play to encourage the States, the private sector and the community to embrace innovative way of contributing to infrastructure to ensure our cities and communities can benefit from world class infrastructure while ensuring that the financial burden doesn't rest solely with Government.

The Role of Value Capture in Australia

While not a new concept there is still considerable confusion about value capture in Australia. While the concept has been widely used in many other jurisdictions internationally, it is still not well understood or practiced in Australia.

This is in part due to the more complex political arrangements and relationships that exist in the Australian context. In a legislative sense the different tiers of Government have in some cases limited powers in how they might fully use value capture mechanisms to help deliver infrastructure. Yet there has also been a lack of leadership from Government, and as a result value capture still remains a policy mechanism that is not widely used or accepted.

Infrastructure though not always well articulated in broader public debate, will either be funded through public finance (taxes/debt), or user charges. This might be supported by asset sales, or asset sweating, but ultimately it is the tax-payer that foots the bill in either scenario.

Alongside effective funding streams, innovative financing mechanisms should be structured to support infrastructure projects and to deliver more equitable, value-for-money outcomes for governments. Public Private Partnerships, including for example value capture, provide new opportunities to leverage greater private sector investment across a range of projects.

It is worth noting that Consult Australia does not consider any single financing or funding policy will by itself provide a stand-alone solution to the substantial challenge facing governments to deliver infrastructure, however utilising mechanisms such as value capture present opportunities for reform. Further, it the view of Consult Australia that funding mechanisms associated with each infrastructure project or policy change should be considered on their individual merits.

Overcoming institutional resistance to more innovative policy solutions, like value capture, will be critical to delivering new financing mechanisms. It is important to realise that not every tool available to governments will be appropriate for every project. Nonetheless steps should be taken to ensure all options are available so they can be used where appropriate.

While not a particularly difficult concept, value capture is essentially a form of financing that recovers some of the value uplift that infrastructure provides. A portion of the economic uplift resulting from new or enhanced infrastructure is 'captured' to help fund the infrastructure.

By enabling the direct beneficiaries of infrastructure to contribute to government investment, value capture helps to create stronger business cases and enables the same public funds to extend to a greater number of projects. Additionally, Value capture supports the kinds of integrated planning and project delivery that enable precinct-wide outcomes and more services provided to local communities.

Supporting the case for Value Capture in Australia

In the case of Value Capture, institutional resistance, and/or a lack of awareness of potential benefits may be one of the major barriers to implementation. Consult Australia has identified numerous opportunities and lessons that can be learned from overseas experience in successfully implementing value capture mechanisms.

Our most recent report on value capture, published jointly with AECOM in June 2015, *Value Capture Roadmap*, attached as an appendix to this submission, sets out success factors and a roadmap for value capture in Australia, establishing important reference points for a whole of government approach.¹

The purpose of *Value Capture Roadmap* is to raise awareness and stimulate discussion of value capture as both an alternative infrastructure funding method and a decision-making tool. The entirety of this report is highly relevant to the Terms of Reference for this Inquiry and we commend it to you for your detailed consideration.

Consult Australia has facilitated discussions as part of a communications campaign supporting the lessons and messages from *Value Capture Roadmap* around Australia. The response from a range of government agencies and stakeholder representatives has been positive and curious, reflecting a shift in the attitude to this mechanism in recent years.

It is important, as value capture is considered in detail by governments, that: the lessons learned from overseas are taken into account; the limitations of value capture are appreciated; and the challenges in implementation appropriately managed. It would be of great concern if a poorly thought through experiment with value capture failed to deliver on promised benefits and consequently undermined the potential for well-executed value capture to deliver real benefits and new infrastructure across Australia.

Two areas to highlight in further detail, though also elaborated on in *Value Capture Roadmap*, are related to the application of cost benefit analysis in considering opportunities for value capture, and the effective use of community and stakeholder engagement to support the delivery of infrastructure through a value capture mechanism.

The role for Government

As noted previously, the resistance to embrace mechanisms such as value capture have been varied, but to a large extent Consult Australia believes this is due to a lack of political and bureaucratic will to embrace new and innovative ways to fund and finance infrastructure projects.

With the fiscal pressures facing governments around Australia, combined with an increasing demand for quality, productivity building infrastructure, the time to consider new funding and financing options is vital. Whilst not a comprehensive list, Consult Australia believes that there are several opportunities for Government to lead the charge and utilise mechanism such as value capture that will go some way to contributing to infrastructure costs.

Long Term Planning

Consult Australia has long argued that effective long term planning is vital if we are to build the productivity enhancing infrastructure that Australia needs. A robust, independent and transparent process and governance model for the evaluation, prioritisation and decision-making supporting infrastructure delivery is essential for every sphere of government.

Across Australia there are a number of models now implemented supporting greater independence in the selection and prioritisation of infrastructure projects. Consult Australia supports the work of Infrastructure Australia and the other infrastructure bodies that exist throughout Australia and we

¹ Consult Australia & AECOM. 2015. [Value Capture Roadmap](#);
See also: Consult Australia & SKM. 2013. [Capturing Value](#)

argue that every jurisdiction should employ similar structures to help in the long term planning of infrastructure projects.

A long-term approach to the prioritisation of infrastructure is essential. While many infrastructure projects are prioritised through clear and rational assessment, in some cases decision making risks being misconstrued, and may appear to be driven by political exigency where no clear process or guidelines for assessment have been developed. When communities are competing for scarce dollars, clear processes are essential to assess, rank and prioritise projects. Decisions must be robust and stand the test of changing political and economic circumstances.

At a state, territory and federal level Consult Australia advocates the establishment and/or preservation of independent statutory authorities to provide expert and transparent advice to governments and industry supporting an interagency focus on transport, water, energy and communications infrastructure.

These agencies and their interaction should facilitate a more informed debate across industry and the community about government priorities, supported by strong evidence, research and public advice to government published independently. Delivering an integrated strategic approach to infrastructure planning and prioritisation, they will facilitate better urban and regional development through support for a long-term pipeline of coordinated infrastructure projects supporting productivity and jobs growth.

Successive governments must serve to strengthen the independence and authority of these agencies. Any moves that compromise their independence or advice will be to the detriment of the community and industry where certainty in a long-term pipeline, across electoral cycles, is critical to strategic planning and investment decisions.

Embracing broader cost benefit analyses

As noted in *Value Capture Roadmap*, effective value capture will be supported by broader cost benefit analyses. This is itself subject to significant institutional resistance in Australia. Historically, infrastructure projects are assessed individually, over relatively short time-frames and viewed as 'ready to proceed' only where utilisation is close to capacity. The benefits of a longer-term view of infrastructure investment, and governments' vital role in communicating those longer-term benefits as part of a vision for our cities and regions, needs to be re-established.

Governments need to consider less easily quantified benefits that come with some forms of infrastructure investment. Take for example the Sydney Opera House that demanded unforeseen investment by the governments of the time. Yet, there is no doubt that this is a 'transformational investment' that has been recouped both economically and culturally in the decades that have followed—though this would not likely have been reflected in any cost-benefit analysis.

The criteria governing cost benefit analysis are generally not well understood by the public and are also subject to change and influence. Good governance is critical to resolving this issue. Equally, as already noted, where appropriate, cost benefit analysis should be conducted across multiple projects, and have regard to wider economic benefits that come through agglomeration, jobs growth, and the delivery of more sustainable and liveable communities. It is this approach that has been successfully applied overseas, for example in London through the delivery of the Crossrail project, and which has resulted in significant new private sector investment and the successful implementation of value capture.

Valuing better community and stakeholder engagement

A further critical ingredient to the successful delivery of value capture relates to the application of effective community engagement to deliver social licence to deliver the infrastructure proposed. The standard and nature of community engagement around infrastructure projects has the ability to determine the project's success in terms of its acceptance and use by the public both in operation and in financing.

While 'community engagement' is often identified by policy makers as an important component of good policy and program development and project delivery, too often, particularly when it comes to infrastructure, we see this mentioned as an important 'box to tick', but with no real idea of (and sometimes no real interest in) how to meaningfully engage communities and other stakeholders effectively.

Ultimately engagement is the process by which organisations, communities and individuals connect in the development and implementation of decisions that affect them around project development. Engagement is a tool to achieve outcomes, develop understanding, educate and/or agree on issues of concern. The process of seeking community feedback on a project is often challenging and frequently undervalued, but our understanding of how we can undertake better engagement and in turn achieve greater social licence is worthy of more attention.

In a more democratised modern society, it is more critical than ever before that the community consultation process is both rigorous and thorough to ensure projects are not unduly delayed, and that we understand the value of engagement activity on projects, so that we invest in engagement appropriately.

This is particularly important when it comes to utilising value capture. While value capture may have been used to some degree in the past we argue that it is not well understood by the broader public. Consult Australia believes that when using 'new' funding models genuine stakeholder consultation is vital to reduce the risks and ensure that the public is informed as to why the decisions are being made.

Consult Australia have published a *Guide to Procuring Engagement Services* as the first part of our *Valuing Better Engagement* project, and we recommend this Guide as useful template when working with stakeholders on value capture.

For value capture to be embraced and used as a successful tool in assisting government deliver vital infrastructure we recommend a whole-of-government approach to procurement, planning, infrastructure and pipeline.

This approach removes the traditional disconnect between the different tiers of government and we suggest that there is an opportunity for the Federal Government to take a lead to ensure that this collaboration not only continues but is strengthened. Value capture can be used to facilitate and foster a relationship between Federal Government, State & Territories and Local Government.

The three tiers of Australian government each play their role; the federal government often provides funding to prioritise projects. The state and territory governments generally have responsibility for service and project delivery, including development assessment, environmental and heritage protection, infrastructure planning and delivery and housing.

We submit that this collaborative relationship should not exclude Local Government. Indeed, as Local government retain major responsibility for detailed land-use planning and community engagement around specific developments they have an important role to play in demonstrating the positive impact that specific projects can bring to communities, and this is particularly the case when it come to innovative financing and funding mechanisms such as value capture.

This interaction is now more important than ever as the Australian government works towards delivering a number of City Deals across Australia, where value capture can and should play a role.

Using the Private Sector

Effective value capture needs to attract investment if the value is to be captured, and it is therefore imperative that the government work with the private sector when considering mechanisms such as value capture. Furthermore, the private sector plays an important role in promoting this investment and thus increasing the potential for governments to capture more value.

Consult Australia believes that there is a need to work more closely with the private sector when considering models such as value capture. We have argued that while effective, value capture isn't

necessarily workable for every project.

Further, using the private sector can help ensure better design and more innovative solutions to ensure that the infrastructure meets the demands and is also future proofed for generations to come.

Industry can play a critical role as it can provide its own unique expertise in regard to projects, policy settings, and decision making processes around planning, design and infrastructure generally. This expertise can be delivered through individual businesses alongside their industry and professional associations to support best practice and continuous improvement across the wide range of roles in planning, development and infrastructure.

We argue that Australia is home to some of the brightest and best engineers and designers in the world. We have the capacity to utilise the great minds and build the infrastructure, that is not only world class, but has the ability to serve the population for decades to come. This can only be achieved if reluctance from government to engage with and use the private sector in the early stages of design is overcome.

Next steps

We would be pleased to discuss further the issues raised in this submission, and to work with the Government as you consider in detail the responses to the discussion paper. In addition Consult Australia member firms have a great deal of expertise and global experience in relation to innovative funding and financing mechanisms and would be pleased to continue our collaborative relationship with the Federal Government.

We look forward to continuing the discussion on value capture and to that end if you require any further information please contact Ryan Bondar, Associate Director of Policy & Government Relations ryan@consultaaustralia.com.au or Chris Drummer Associate Director Government and Industry Affairs chris@consultaaustralia.com.au phone 02 8252 6700.

Yours sincerely,



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