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**The Henry  
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## **Value Capture on Urban Road and Rail Projects: Are There Too Many Free Rides?**

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## Title

Value capture on urban road and rail projects: are there too many free rides?

## Key Points

Taxpayers and motorists are bearing the brunt of massive road and rail spending in the big eastern capital cities. Land owners who are benefiting from this public investment are not contributing much in return for their windfall gains.

The Federal Government is failing to uniformly enforce its “beneficiary contributions” rule with the states.

There should be greater value capture in the form of major beneficiary contributions; betterment levies on favourable planning decisions; and a broad-based land tax.

With rapid population growth invariably favouring the big cities, a broad-based land tax could spur further development in regional areas where land values are much lower.

While there has been a fixation with multi-billion dollar infrastructure solutions for urban congestion, relatively cheap fixes can vastly improve safety on dangerous country roads.

## Context

Australia’s rapidly-growing eastern capital cities are experiencing a massive boom in road and rail infrastructure projects, with much more in the pipeline.

There is a remarkable consensus across the economics, planning and development professions that a broad-based land tax is an important way to capture increases in land value created by this transport infrastructure.

## Author Steve Skinner

The author grew up in regional NSW and worked as a railway fettler before attending the University of Sydney where he majored in economics and social studies. Steve has worked for 30 years in journalism including for the ABC, Fairfax, Reuters and Bauer Transport Media. He also has first-hand knowledge of road infrastructure as an interstate truck driver.

## FURTHER INFORMATION

This paper is based on The Henry Halloran Trust Practitioner in Residence Project

The full paper from this project can be found on the Henry Halloran Trust Website:  
<http://sydney.edu.au/halloran/programs/index.shtml>

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There is also strong support for project-specific transport-related value capture on uplifts in land values, from such prestigious organisations as the Committee for Sydney, and the House of Representatives Standing Committee on Infrastructure, Transport and Cities. Others disagree on efficiency and fairness grounds, and in some cases no doubt out of vested interest.

For a year or two from 2016 the Federal Government appeared keen on uplift-related value capture, but did not insist on it for all the mega-projects it was helping state governments to fund, some of which are still waiting for business cases.

Recently both state and federal governments and oppositions seem to be giving only lip service to uplift-related value capture, in the absence of any significant political pressure for it. Developers, while supporting the notion when advocating projects, also seem to go quiet once projects are approved.

## Sources

There are more than 80 references for this paper but as well as those mentioned in the previous section, key sources have included Infrastructure Australia; the Henry Review on Australia's Future Tax System; the Grattan Institute; SGS Economics and Planning; and Urban Taskforce Australia.

## Key Findings

### Chapter 2 – Literature Review.

Most advocates say a broad-based land tax, similar to council rates, should at least replace the widely hated state stamp duties on the sale of property.

However, the big catch is the political difficulty of implementing a broad land tax. Another big dilemma is in taxing prime farming land in the cities which is potentially far more financially valuable for real estate development, therefore creating an incentive to take it out of agricultural production.

### Chapter 3 – The Politics of Value Capture

It appears the Federal Government did not insist on uplift-related value capture with its Coalition counterpart in NSW, in return for nearly \$2 billion towards the giant Sydney Metro City and Southwest rail project. Nor for its later \$5 billion towards the

planned Melbourne Airport Rail Link in partnership with the Victorian Labor Government.

Meanwhile the state Labor governments have decided to fully fund the Melbourne Metro and Brisbane Cross River Rail on their own. They did not accept the offer of federal money with value capture strings attached – which they branded as unfair taxes. This was after Queensland had actually expressed support for value capture to this author in 2016.

#### **4 – In-Fill Development and Windfall Gain**

Windfall gains are enjoyed by landowners when toll road companies and governments build major roads, rail lines and busways in the built-up areas of big capital cities. Railway stations in particular can enable lucky landowners nearby to see their property values increase two, three or four-fold.

The evidence of windfalls is emerging from past big road projects in Melbourne, for example City Link and EastLink; from past big road projects in Sydney such as the M7; and past major road projects in Brisbane such as the M1. The Epping to Chatswood rail line in Sydney has also been a value capture-free bonanza for landowners, as well as the wider Metro Northwest it is now part of. And the South East Busway in Brisbane has been a big free kick for Westfield.

Apart from above-station air rights, there is little indication so far that massive new rail projects under way or on the books in Sydney, Melbourne and Brisbane will involve significant value capture either. Nor is there any definite public indication this author can find of any significant value capture being involved in the giant Westconnex (Sydney) or North East Link (Melbourne) road projects.

#### **5 – On Shaky Ground in Greenfield Development**

Is massive transport infrastructure on the fringes economically sustainable for taxpayers? For example, the cost of building roads that far out from the CBD is much more expensive per dwelling than closer in.

While speculative fortunes have continued to be made from land ever since the new Western Sydney Airport was announced several years ago, the state and federal governments appear to be still a long way off developing a value capture regime or broader land tax system for the airport or its associated road and rail infrastructure. This is despite land owners and developers themselves calling for this – at least before the main rail line was announced. It’s perhaps too late now to capture significant revenue from land owners.

## 6 – Regional Road and Rail Infrastructure

Value capture can’t be separated from wider resource allocation mechanisms. The Federal and NSW Governments are spending more than \$7 billion on the North South rail line in Sydney which their own advisers say won’t be needed until the 2030s. That money could go towards any number of other important infrastructure projects, including improved safety on rural and regional roads.

But much of these improvements are left to local councils with barely the resources to maintain the existing roads they are responsible for.

Perhaps the final word for this paper belongs with Infrastructure Australia, in its advocacy of a broad-based land tax, with an interim plan for value capture:

By introducing this (land tax) reform alongside the removal of other, less efficient taxes on transactions such as stamp duties, governments have an opportunity to improve how we collect funding for infrastructure, and alleviate the need for implementing project-specific mechanisms in future. Nevertheless, in the absence of a broad-based land tax, other value capture mechanisms remain an important part of the infrastructure funding mix (Infrastructure Australia 2016 p.7).

## Implications for Practice

**Recommendation 1:** Building on apparent success so far in the ACT, a broad-based land tax needs to be introduced across Australia.

**Recommendation 2:** More urgently, governments need to introduce “major beneficiary” contributions and probably levies on the windfall gains in land value related to particular transport projects.

**Recommendation 3:** The Federal Government needs to uniformly enforce its stated policy of insisting the states ensure beneficiary contributions.

**Recommendation 4:** The planning profession needs to urgently address the conundrum of governments needing to preserve prime agricultural land on the urban fringes while also capturing some of the increased land values.

**Recommendation 5:** Politicians in regional areas need to band together to demand greater equity in transport infrastructure spending.