AUSTRALASIAN RAILWAY ASSOCIATION

AUSTRALASIAN RAILWAY ASSOCIATION SUBMISSION

To the

NSW Productivity Commission

On

The Review of Infrastructure Contributions in NSW

The Industry

The Australasian Railway Association (ARA) is a not-for-profit member-based association that represents rail throughout Australia and New Zealand. Our members include rail operators, track owners and managers, manufacturers, construction companies and other firms contributing to the rail sector. We contribute to the development of industry and government policies in an effort to ensure Australia's passenger and freight transport systems are well represented and will continue to provide improved services for Australia's growing population.

The ARA and its members thank the NSW Productivity Commission for the opportunity to provide a submission on the review of infrastructure contributions in NSW.

Any questions regarding this submission should be directed to [redacted]

Responses to Discussion Questions

The Need for Ongoing Rail Investment

The 2019 Infrastructure Audit released in August 2019 provided a frank, evidence-based assessment of the complex and multifaceted challenges facing Australia in meeting its future infrastructure needs to serve its growing population.

The most considered and challenging finding is that the record investment being made in infrastructure by state, territory and the Commonwealth Governments is not a once in a generation aberration but is in fact the 'new normal.'

Governments will be required to continue to build more infrastructure to keep pace with Australia's growing population, as well as its more complex and varied needs.

A key challenge is the ability and commitment of the three levels of government to sustain these levels of funding over the medium term.

Nowhere are these challenges more evident than in Australia's largest state and largest city.

NSW is undergoing a rail renaissance. After decades of investment on roads and freeways from the 1960s through to the 2000s, population growth led to significant road and public transport congestion, which became significant economic and social inhibitors to growth and amenity. This has in turn led to a regeneration of investment in urban heavy rail, the new Metro, expansion of Sydney Light Rail and new Light rail in Newcastle, and dedicated rail freight corridors to improve the efficiency of the long neglected freight rail infrastructure.

For these reasons ARA supports this review which will assess the current infrastructure contributions system and make recommendations aimed at delivering a principles-based system that delivers the infrastructure required.

ARA has determined to make a short contribution to several questions raised the Issue paper.

Issue 2.1 Enable a broader revenue source for the funding of infrastructure

Are there any potential funding avenues that could be explored in addition to those in the current infrastructure funding mix?

Infrastructure costs are currently funded from a range of sources: state and Commonwealth Government budgets, local government rates and cost recovery through user charges. This reflects the reality that infrastructure investment has a number of beneficiaries, serving the public interest in the communities they serve as well as delivering commercial returns for industry.

However, user charges on industry for infrastructure costs are not always applied fully and universally and there are clear instances where industry cost recovery is not appropriately applied. More effort needs to be made to ensure existing avenues are properly utilised and not under-recovered.

An example is the under-recovery of road construction and maintenance costs. All levels of government fund roads on the basis that there is a community benefit to road usage. However, heavy vehicle charges are applied to all vehicles with a Gross Vehicle Mass of above 4.5 tonnes. Charges are applied nationally and purport to recover the share of road construction and maintenance costs that can be allocated to heavy vehicles.

The charge consists of the diesel fuel charge, known as the Road User Charge administered by the Commonwealth Government, used to cover government road expenditure; a roads component of vehicles registration fees, administered by the sate/territory governments, also used to cover road expenditure; and a regulatory component of vehicles registration fees, administered by state/territory governments covers the operating cost of the National Heavy Vehicle Regulator.

The National Transport Commission has ongoing responsibilities for recommending Heavy Vehicle charges to the nation's Transport Ministers, acting as the Transport and Infrastructure Council. Determinations are made to adjust heavy vehicle charges infrequently via adjustments of single percentage increase or decreases to heavy vehicle registration charges and the Road User Charge rate.

The total heavy vehicle cost base for 2020-21 has been determined to be $3.714 Billion.

However heavy vehicle charges have been frozen by Transport Ministers since 2016, leading to an under recovery of $379.6 million, or 11.4 %. In November 2019, Ministers determined to increase charges by 2.5%, leading to an ongoing under-recovery.

Other modes of transport, such as rail don't have beneficial arrangements put in place by the Governments and must pay full charges established under commercial arrangements.

ARA contends that principles of cost recovery need to be applied consistently across the economy in order to maximise funding available to infrastructure.

Issue 2.2 Integrating land use and infrastructure planning

The Greater Sydney region Plan provides the overarching vision and infrastructure needs, which is translated into separate District Plans and Local Strategic Planning Statements. These are used by councils for land use and infrastructure planning.

How can the infrastructure contributions system better support improved integration of land use planning and infrastructure delivery?

Competing pressures on Government, such as ongoing and increased investment in infrastructure, as well as the fiscal impacts of ageing population placing additional demands on health expenditure, require new approaches to funding.

As a general principle, ARA believes that those that benefit from Government rezoning of land for development or infrastructure purposes ought to contribute to its funding. Therefore landowners, developers, ratepayers and infrastructure users all should have a shared responsibility to contribute.

New policy approaches should allow increased taxation, rates, and transaction charges to allow increased revenue collection by councils, and states to facilitate improved infrastructure arrangements described in the State Infrastructure Strategy.

Issue 4.1 Sharing land value uplift

If investment in public infrastructure increases land values, then the benefits are largely captured by private property owners. 'Value capture' mechanisms can return a share of the value created by public investment to the taxpayer.

There are several ways a 'value capture' mechanism could be applied, including land tax, council rates, betterment levy, or an infrastructure contribution.

Where land values are lifted as a result of public investment, should taxpayers share in the benefits by broadening value capture mechanisms? What would be the best way to do this?

ARA supports value capture mechanisms to enable governments to share in the significant land value increases associated with planning decisions to create infrastructure such as train stations, bus interchanges and roads, as well as schools and hospitals.

Costs on government are increasing, with rising demands for infrastructure investment, higher demands on social services associated with an ageing population and ongoing reduction of corporate and personal tax rates, and ongoing rate pegging of local government rates.

As a general position ARA supports governments having mechanisms such as precinct taxes levied on properties surrounding the infrastructure, which generally have the highest uplift and more broadly applicable betterment taxes that are levied on the increase in value associated with the additional infrastructure.

ARA supports state and local Government hypothecating these taxes to provide necessary community infrastructure and promoting their purpose within the community.

Where specific Development Agreements are made, such as to allow a developer to establish a retail centre above a railway station, then such arrangements including tax, levies and charges ought to be transparent. ARA supports transparent tax arrangements rather than confidential development agreements.

Issue 4.2: Land values that consider a future infrastructure charge

When land is rezoned, there is often an increase in land values as a result of the change in development potential. Should an "infrastructure development charge" be attached to the land title?

ARA supports an infrastructure development charge for the reason outlined in 4.1

Issue 4.5: Corridor protection

Early identification of corridors has the potential to result in better land use and investment decisions. Without funds available to facilitate their early acquisition, it is likely that being 'identified' would encourage speculation and drive up land values, making the corridor more expensive to provide later.

What options would assist to strike a balance in strategic corridor planning and infrastructure delivery?

Early corridor identification is key to good planning, leading to more rational decisions by developers, and investors and citizens.

For large linear projects such as rail and road corridors, corridor protection in the form of route identification, protection from development and acquisition are key to successful project development.

Planning processes in Australia can be lengthy and complex particularly when there are multiple local government and state jurisdictions involved in greenfield developments. As an example, the Inland Rail project, a freight line from Melbourne to Brisbane via Toowoomba, Morree, Parkes and Albury undertook its first route identification study in 2006. Fourteen years later, there are still aspects of the route that have not been finalised.

Transport planners in the 1950s-1970s in our major cities had the insight and policy framework to protect the corridors that became key from the 1980-2000.

Modelling by Infrastructure Australia of various scenarios involving seven projects demonstrated that under a 'protect and acquire now' scenario, governments could save up to $10.8 billion ($2016, at a 7% real discount rate) in the cost of developing the seven projects, compared to the 'do not protect' scenarios. In real, undiscounted terms, the savings are up to $57.1 billion ($2016).

The modelling further finds that even if land is not immediately acquired by Government, its identification and protection from sub-division and development will still save government significant costs when acquisition finally occurs. For this reason, ARA supports identification and protection of vital corridors even if acquisition is not immediately possible by Government. East Coast High Speed Rail is such an example.