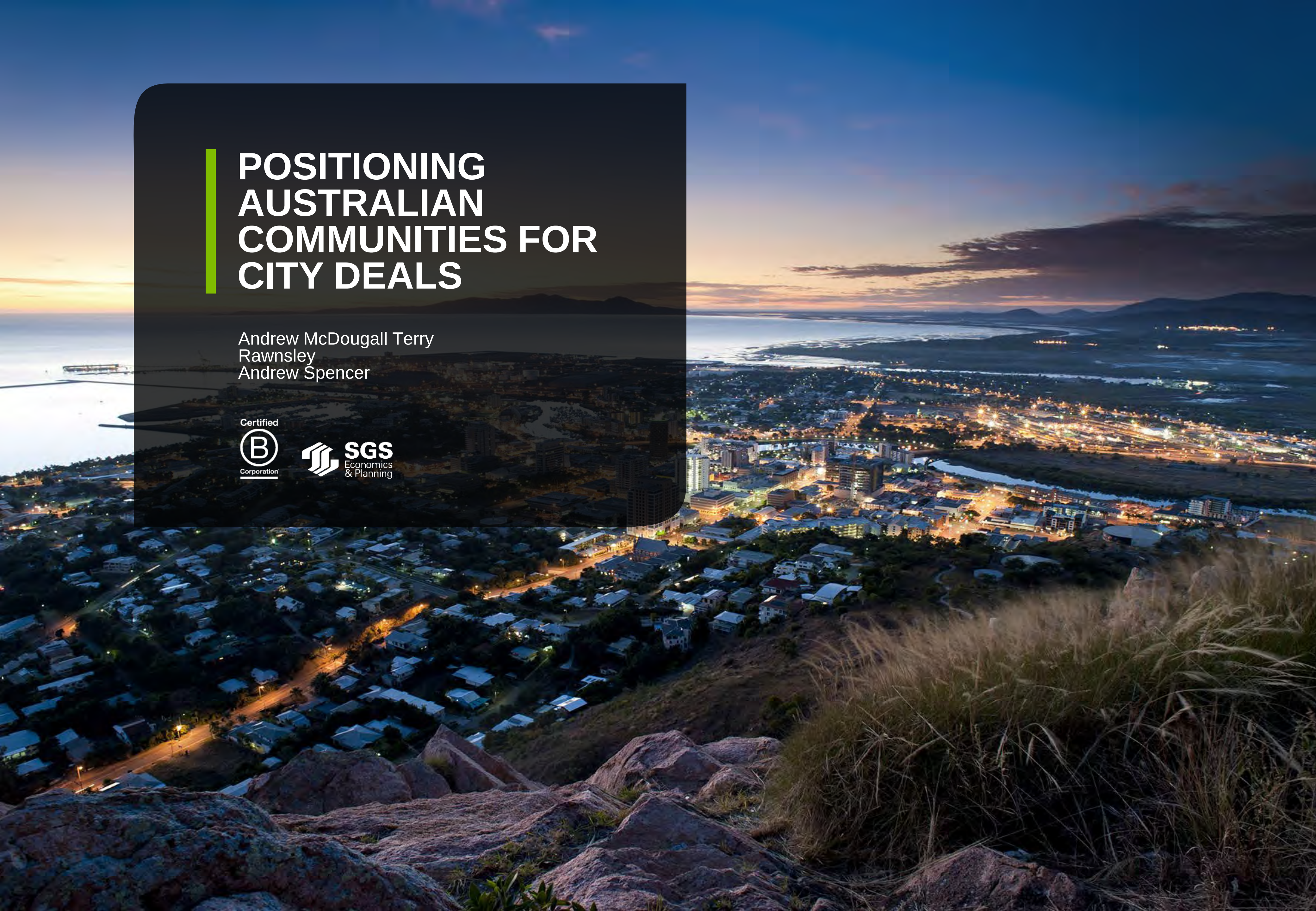

POSITIONING AUSTRALIAN COMMUNITIES FOR CITY DEALS

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What are City Deals?

(Andrew McDougall)

What are City Deals?

- Australian policy statements
- Australian media announcements
- International experience
- Key findings

Australian Policy Statements

"City deals are a new approach to developing outcomes driven policy and investment for individual cities across all tiers of government the private sector and community. They will address local challenges and maximise local advantages." **–** Prime Minister Malcolm Turnbull, 29 Sep 2016

- Australian Infrastructure Plan, Australian Government, 2016.
- Smart Cities Plan, Australian Government, 2016.

Source: Prime Minister of Australia, Malcolm Turnbull, 2016.

Australian Infrastructure Plan

Recommendation 2.1 The Australian Government should use its funding position to drive change in the planning and operation of Australia's cities through the use of *Infrastructure Reform Incentives*.

- Use ***Infrastructure Reform Incentives*** to improve the efficiency and effectiveness of Australian cities in partnership with state, territory and local governments
- Review the applicability of previous domestic and international examples of incentive programs, in particular the **City Deals program** in the UK.

Recommendation 5.10 Accessing funding from a broader range of infrastructure beneficiaries through value capture.

- Governments should routinely consider **value capture opportunities** in all future public infrastructure investments.

Source: Australian Government, Australian Infrastructure Plan, 2016

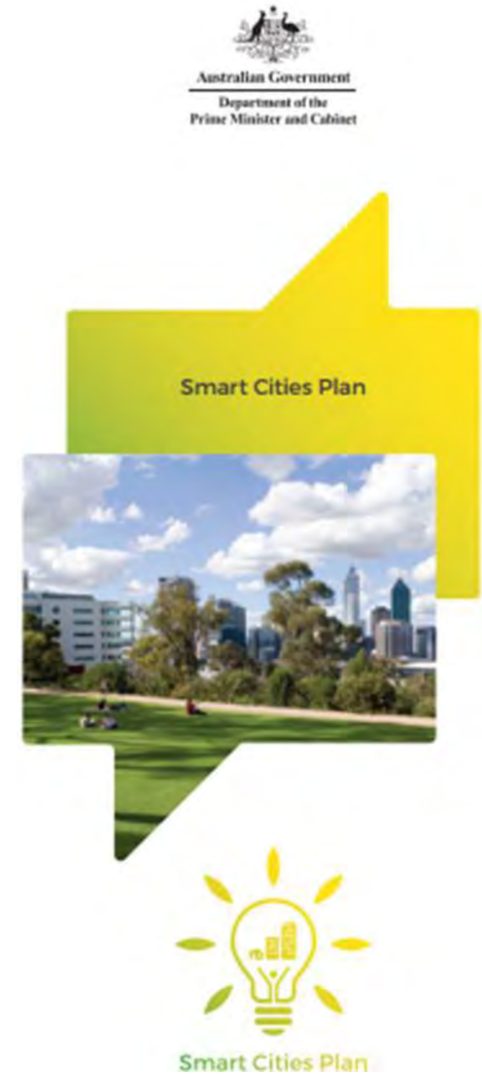
Smart Cities Plan

Comprised of three pillars:

- Smart Investment
- Smart Policy (delivering City Deals)
- Smart Technology

A new approach to ‘smart Investment’ to drive Infrastructure funding:

1. Prioritising projects that meet broader economic objectives
2. Treating infrastructure funding as an investment whenever possible
3. Getting involved early to ensure rigorous planning & business cases
4. Increasing investment



Source: Australian Government, Department of Prime Minister and Cabinet, Smart Cities Plan, 2016

“Smart investment”

1. Prioritising projects that meet broader economic objectives:

- Support projects that promote broader national economic objectives such as long term growth and job creation i.e. prioritizing infrastructure that improves accessibility, promotes agglomeration economies, and enhances amenity, housing, affordability and sustainability.

2. Treating Infrastructure funding as an investment wherever possible:

- Where projects generate a direct financial return, it may make sense for the Australian Government to provide an investment of debt or equity, rather than a grant.

3. Getting involved early in project planning and business cases:

- The Australian Government will be involved in planning & business case development for major projects.

4. Increasing investment:

- All levels of government can do more to realise the potential benefits of value capture.

Source: Australian Government, Department of Prime Minister and Cabinet, Smart Cities Plan, 2016

Smart Cities Plan

*"City deals will be structured around nationally and locally informed objectives, with a focus on **economic growth, jobs creation, housing affordability,** and **environmental outcomes**" – AusGov 2016.*

Working in partnership/coordinated investment across:

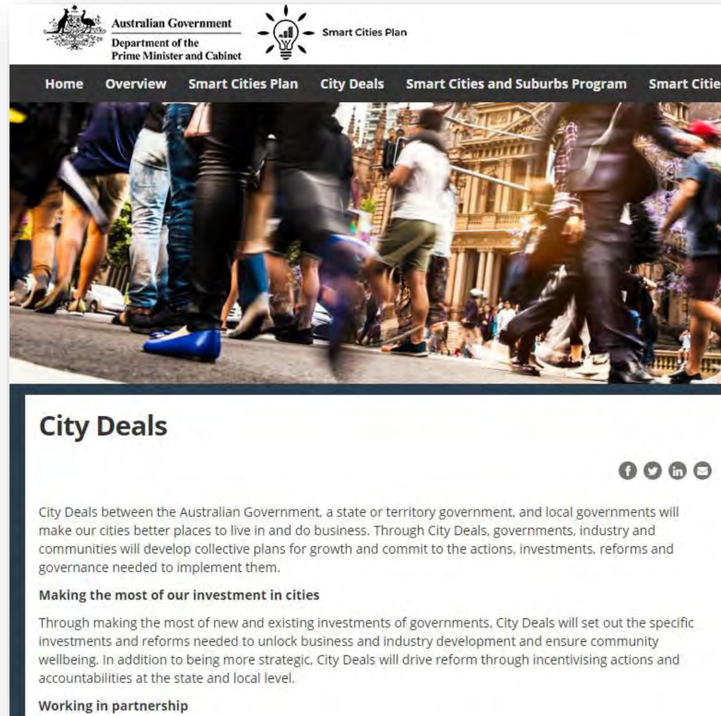
- All tiers of government
- Private sector
- Community

Where:

- Capital cities
- Major urban areas
- Australian regional centres

Commitment to 'early deals':

- Townsville
- Launceston
- Western Sydney



Source: Australian Government, Department of Prime Minister and Cabinet, Smart Cities Plan, 2016

Foundations of City Deals

The Foundational Elements of City Deals as presented by the Smart Cities Plan, 2016.

- Defined geographical area
- Clear outcomes and actions
- Specific capital investments connected to reform
- Clear governance arrangements, delivery timeframes and accountabilities
- Performance measurement, including indicators and methodology to be used.

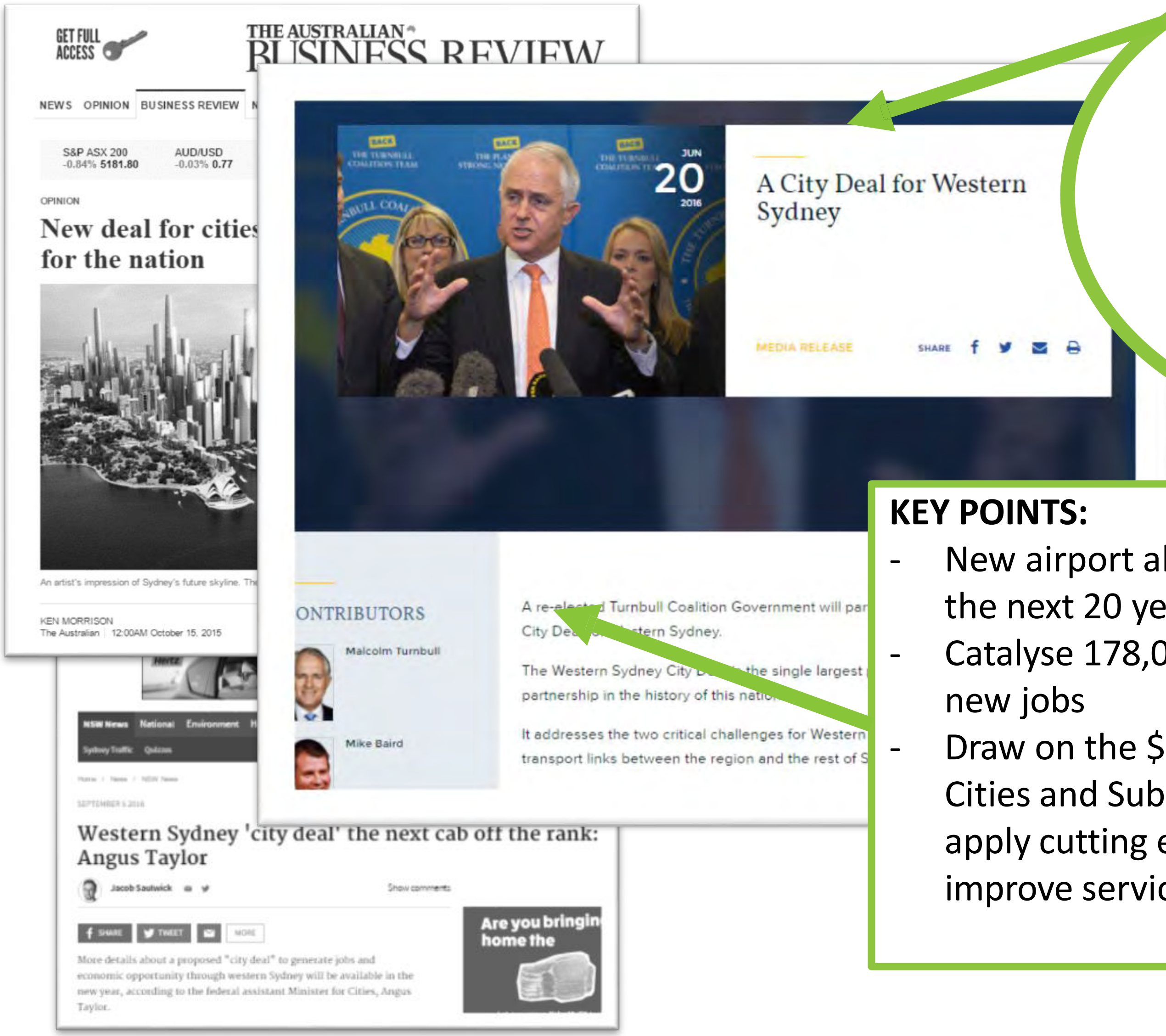
Source: Australian Government, Department of Prime Minister and Cabinet, Smart Cities Plan, 2016

Examples of City Deals

- Targeted initiatives to strengthen existing or emerging economic hubs including transport, industry, defence, health or educational facilities.
- Transport infrastructure funding or financing to improve connectivity and increased access to jobs.
- Housing supply and planning changes to encourage higher density development, affordable housing and activate value capture.
- Investments that improve environmental outcomes, enhancing public spaces, facilities and active transport options, reducing emissions and pollutants, or improving the sustainability performance of buildings and infrastructure.
- Maximising benefits from underutilised state and Commonwealth land for example, repurposing government land to be used for affordable housing on public space.
- Integrating environmental criteria into decision making – such as green coverage to minimise urban heat island impacts, reducing localised air pollution from investments, reducing waste and increasing recycling.

Source: Australian Government, Department of Prime Minister and Cabinet, Smart Cities Plan, 2016

Media : Western Sydney



Address
2 Critical Challenges:

- Stimulating job growth
- Better transport links between the region & the rest of Sydney

KEY POINTS:

- New airport alone to create 39,000 jobs over the next 20 years
- Catalyse 178,000 new homes & almost 200,000 new jobs
- Draw on the $50 million competitive Smart Cities and Suburbs program to support councils apply cutting edge technology solutions to improve services, urban spaces and liveability.

Western Sydney City Deal

- Landmark agreement for Western Sydney that will unlock public & private investment in key infrastructure, support jobs and economic growth & improve liveability.
- Bring all three levels of government in a collaborative partnership to set the right conditions for growth
- Single largest planning, investment and delivery partnership in the history of the nation
- Commitment to deliver of a Western Sydney Airport and leverage other key infrastructure investments to catalyse jobs growth and better transport links.

DELIVERING TRANSFORMATIVE CHANGE FOR WESTERN SYDNEY

An increase in infrastructure investment, including transformative public transport projects, to unlock the economic potential of the region, reduce congestion and support local needs.

A program of employment and investment attraction to support the development of the region, through reduced business regulation, investment in skills and removing barriers to employment, including a focus on youth and Indigenous employment.

Improving housing affordability through support for increased supply and housing diversity, including improvements to planning and zoning regulations and higher density developments in appropriate locations.

Improved environmental and liveability outcomes, including streamlined and coordinated biodiversity conservation, support for clean air, green spaces, vibrant arts and cultural experiences.

Coordination between governments to deliver regulatory reforms that better integrate infrastructure, land use, housing and environmental planning decisions to facilitate growth.

Source: Australian Government, Western Sydney City Deal Factsheet 2016

Townsville City Deal

Negotiations underway between the Australian, Queensland Government and Townsville City Council.

Key objectives:

- More jobs and investment
- A renewed urban centre
- A more vibrant and liveable city

Commitments:

- Australian Government's commitment to provide $100 million for an integrated stadium and entertainment centre and $150 million for the Townsville Eastern Access Rail Corridor.
- More than $900 million in infrastructure projects in the region, including the Townsville Ring Road,
- Planning work for Hells Gate Dam
- Expansion of one of the largest defence base in Australia, Lavarack Barracks
- Expanded defence facilities to support the regional deployment of Singapore's defence forces during training exercises

Source: Australian Government, Department of Prime Minister and Cabinet, Smart Cities Plan, 2016

Launceston City Deal

- Drive jobs and education
- The Commonwealth Government is providing $130 million to support the relocation and expansion of Launceston's University of Tasmania campus and $7.5 million to the Launceston City Heart project to help revitalize the historic central business district.

Launceston City Deal will drive jobs and education

Release Date: 26 August 2016
Media release
The Hon Angus Taylor MP
Premier of Tasmania, The Hon. Will Hodgman MP
Mayor of Launceston, Albert Van Zetten

The Launceston City Deal will deliver stronger economic growth for Tasmania, opening up education and training opportunities and creating jobs.

Discussions got underway this week between Assistant Minister for Cities Angus Taylor, Premier of Tasmania Will Hodgman and Launceston Mayor Albert van Zetten to frame the Deal.

Three tiers of government are working together to deliver best results from an historically significant Federal investment in Launceston.

The Commonwealth Government is providing $130 million to support the relocation and expansion of Launceston's University of Tasmania campus and $7.5 million to the Launceston City Heart project, to help revitalise the historic central business district.

Portfolio Responsibilities

The Hon Angus Taylor MP is the Assistant Minister for Cities and Digital Transformation

Contact

International experience

> The central tenet of the City Deal approach is that it focusses on a package of infrastructure projects to lift a region's economic capacity over the medium to long-term. The prioritisation of projects based on productivity and economic growth outcomes, together with a set of social and environmental minima, creates the capacity to deal with competing priorities because projects are sitting within a wider productivity and growth frame of reference. In doing so, it also shifts the focus from getting single projects up, to taking a more programmatic view to managing growth challenges across longer-term horizons.

KPMG, 2015.

International experience

Core goal of UK City Deals: Direct infrastructure spending into projects that **boost productivity**, **employment** and **economic growth**.

9 reasons for why KPMG & the Property Council commend the UK approach:

- ✓ A City Deal is a contract
- ✓ The focus is on productivity and growth
- ✓ City Deals encourage local leadership and good governance
- ✓ City Deals utilize smarter tools for determining infrastructure investment priorities
- ✓ City Deals unlock access to innovative financing
- ✓ City Deals help join up economic, social and sustainability goals
- ✓ City Deals promote powerful political leadership that boost economic productivity
- ✓ City Deals promote financial literacy and skills at a local level
- ✓ There is less need to rely on inefficient taxes when efficient alternatives are available

Source: KPMG & Property Council of Victoria 'Introducing UK City Deals: A smart approach to supercharging economic growth and productivity'

SGS Economics & Planning

International experience

UK Model determines an **economic growth budget** for a designated region, **measured as gross value added** – the equivalent of a local GDP. A city or region that exceeds this **benchmark** on the back of its ‘self-help’ then receives a fiscal reward, that is a share of the windfall tax - KPMG, 2016.

Pillar	Core Element
Real Economy Prioritisation Prioritising projects by their impact on increasing jobs and economic output	Objectives and Minima Scope and Prioritisation Metrics
Establishing Governance and Metrics Program agreed based on performance of projects against key metrics	Geography Governance Structures
Establishing Funding Parameters Agreeing baseline budgets, payment by results and “self-help”	Funding Benefit

Source KMPG & Property Council of Victoria ‘Introducing UK City Deals: A smart approach to supercharging economic growth and productivity

International experience

FUNDING ARRANGEMENTS 'CITY DEALS'

Baseline Funding
Centralised Funding Pool

Earn Back Funding
Generated through the implementation of the City Deal
**Returned with further investment & economic growth/payment by result.*

'Self Help' Funding
Local Governments deciding to Capture Funds through:
- Revenues
- Tolls
- Tax increment finance
- Levies
- Rational Developer Contributions
- Dedicated Local Taxes

Metrics

Metrics are agreed upfront and must provide for a **real economic focus** - *for example productivity at the level of whole city region and net impact on jobs*.

- The success of the City Deals model requires more that just a ‘single headline economic metric’ rather it requires the **delivery of balanced growth**.
- This is particularly true in terms of what the distribution of benefits focused on a real economy can bring e.g. the distribution of improved employment and earnings opportunities (KPMG, 2015).

The City Deals approach results in a lead economic metric (usually Gross Value Added, a measure of Gross State Product of Gross Domestic Product) being maximized subject to the minima (environmental and social equity considerations) also being delivered.

International experience

Source KMPG & Property Council of Victoria 'Introducing UK City Deals: A smart approach to supercharging economic growth and productivity

International experience

Metrics utilised by UK Deals

Feature	Greater Manchester	West Yorkshire
Context	Population: 2.7m GVA: £46bn	Population: 2.5m GVA: £43bn
Lead Objective	Maximise local jobs and productivity (GVA)	Maximise local jobs and productivity (GVA)
Programme minima	Reduction in transport CO2 emissions; above average increases in employment connectivity for most deprived 25% of wards (IMD basis)	Better than average improvement in accessibility for the most deprived 25% of LSOAs (IMD basis); employment accessibility in any district being at least half the average; aspiration to reduce transport CO2 emissions
Geography	Net impacts at the GM level	Net impacts at the GM level
Scope	Initially transport but expanding over time to other forms of infrastructure	All transport, plus some regeneration schemes at the margin

City Deals' success is determined on the basis of a number of agreed metrics

Metrics in Greater Manchester were developed to measure the overall benefits gained through the City Deal. Investment in infrastructure was measured using metrics specifically designed for the type of infrastructure that was invested in. In Greater Manchester, the ultimate outcome that was measured was GVA/tax uplift. This was measured through understanding benefits and impacts such as business attraction, travel time savings and increased connectivity.

Source: Source KMPG & Property Council of Victoria 'Introducing UK City Deals: A smart approach to supercharging economic growth and productivity

International experience

Greater Manchester Experience

The Greater Manchester City Deal took a number of years to conceptualise and finally be implemented. This reflects the fact that it was the first deal to be adopted. The approach taken by Greater Manchester is broken down into the 10 key milestones below:

1	Establish baseline budget	→	Provided GM with clarity about "do nothing" funding
2	Lead metric (objective) and minima agreement	→	Established the "rules" and prioritisation objectives for all 10 GM authorities
3	Funding stream agreement	→	Determined the potential funding levers the deal might pull
4	Infrastructure project evaluation	→	Economic evaluation of projects whole-of-life costs and benefits
5	Develop economic model for prioritisation	→	Compared the results of the economic evaluation of each project
6	Prioritisation of infrastructure projects	→	Priority list of infrastructure projects are determined and signed off by all governing authorities
7	Local decisions on scale of self help contributions	→	Determined how far down the priority list funding would go
8	Develop earn-back mechanism	→	Agreement on benchmarks GM had to achieve in order to earn back contributions
9	Reinvest earn-back funding	→	Funding contributed to a rolling infrastructure investment fund
10	Establish regulatory body (GMCA) to maintain program delivery	→	Effectively governs the long-term delivery of the program and reinvestment of earn-back funding

Greater Manchester's earn-back deal (and thus the formula that benchmarks its growth) starts in 2015/16. This is 6 years after Greater Manchester's self-help investment started, and some 3 years after the first major deal-funded project was completed. This is the earliest Greater Manchester expects to see supply-side-driven growth impacts along the corridors benefiting from the investment.

Critiques

In the media:

https://www.foreground.com.au/politics/whats-big-deal-city-deals/

Report from the National Audit Office. *Report by the Comptroller and Auditor General: Devolving responsibilities to cities in England: Wave 1 City Deals*, 2015.

17 The government and cities continue to find it difficult to know what works best in boosting local growth without a robust and shared evaluation approach. While some programmes have had early impacts, evaluating the effect of longer-term programmes in the City Deals on local economic growth is challenging. This is because the impacts occur over a long time and because it is difficult to assess what would have happened without the deals. The government and the cities could have worked together in a more structured way to agree a consistent and proportionate approach to evaluating the deals' impact. The cities have developed methods for monitoring the impacts of some programmes, but there is no consistent methodology or shared set of definitions around key measures such as jobs. The Unit does not have a plan for using this information to support cities and other local areas focus on the interventions that provide the best value for money. In developing its approach to evaluating Growth Deals, the government has developed a common set of measures that it expects LEPs to report against. The Unit acknowledges, however, that more needs to be done to create a consistent reporting and monitoring framework across local growth initiatives and to ensure the impact of programmes is evaluated effectively (paragraphs 3.15 to 3.23).

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Australian Government, The Western Sydney City Deal, Factsheet 2016. https://cities.dpmc.gov.au/western-sydney-city-deal

Australian Government, *Australian Infrastructure Plan*, 2016. Available online: http://infrastructureaustralia.gov.au/policy-publications/publications/Australian-Infrastructure-Plan.aspx

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So what are Australian City Deals?

- A partnership approach to infrastructure funding with robust business cases, i.e. clear outcomes, specific investments, accountable governance, and ongoing performance measurement
- Focus on projects that drive economic productivity/ growth and which also have some social or environmental benefits
- Focus on automatic 'capture' of benefits through existing taxation systems, as well as additional revenues that can readily be captured through land value capture
- However, the following are unclear:
  - Community prioritization
  - Process for Commonwealth/ state/ local engagement
  - Infrastructure project selection.

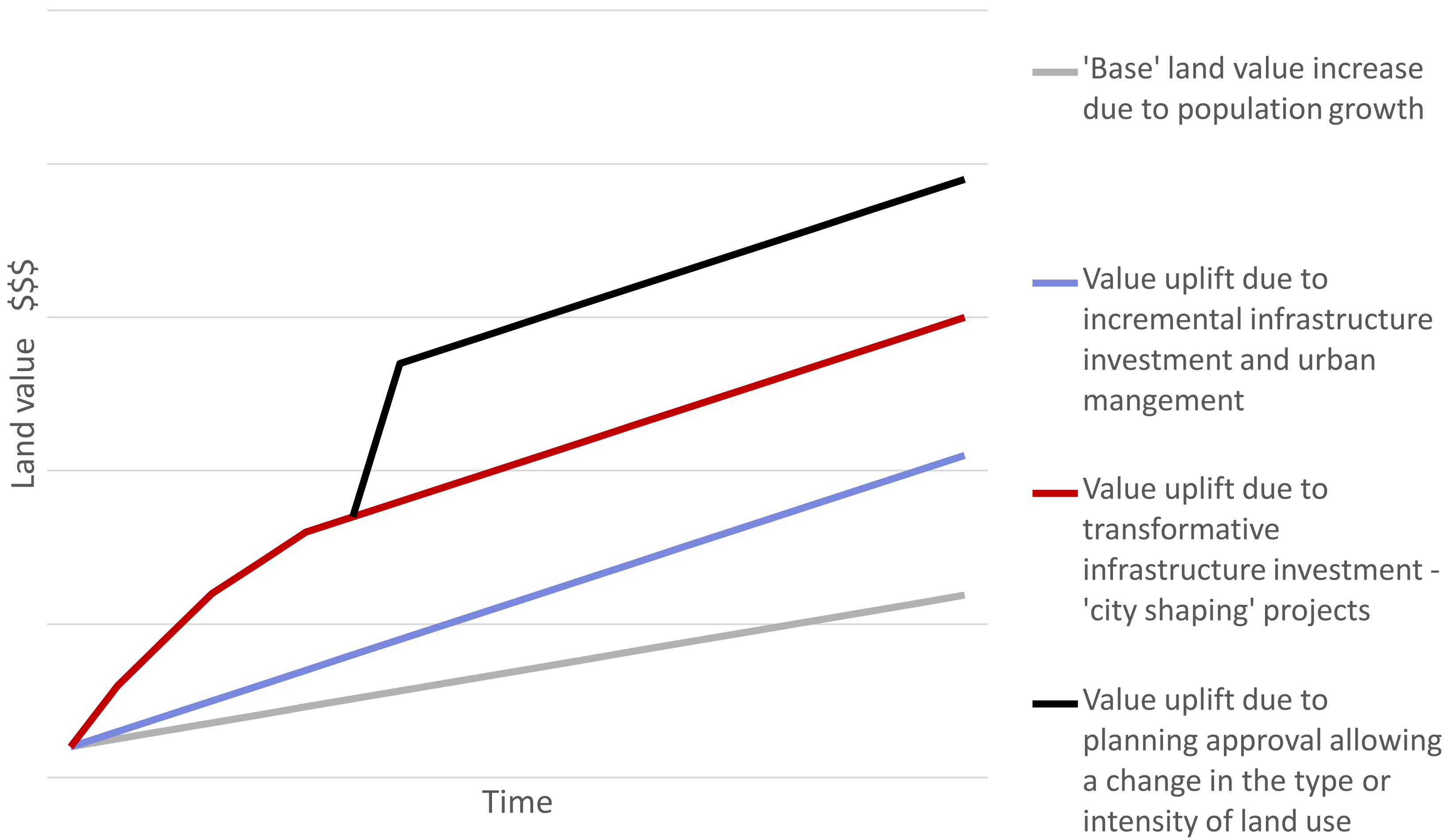
How does value capture work?

(Andrew Spencer)

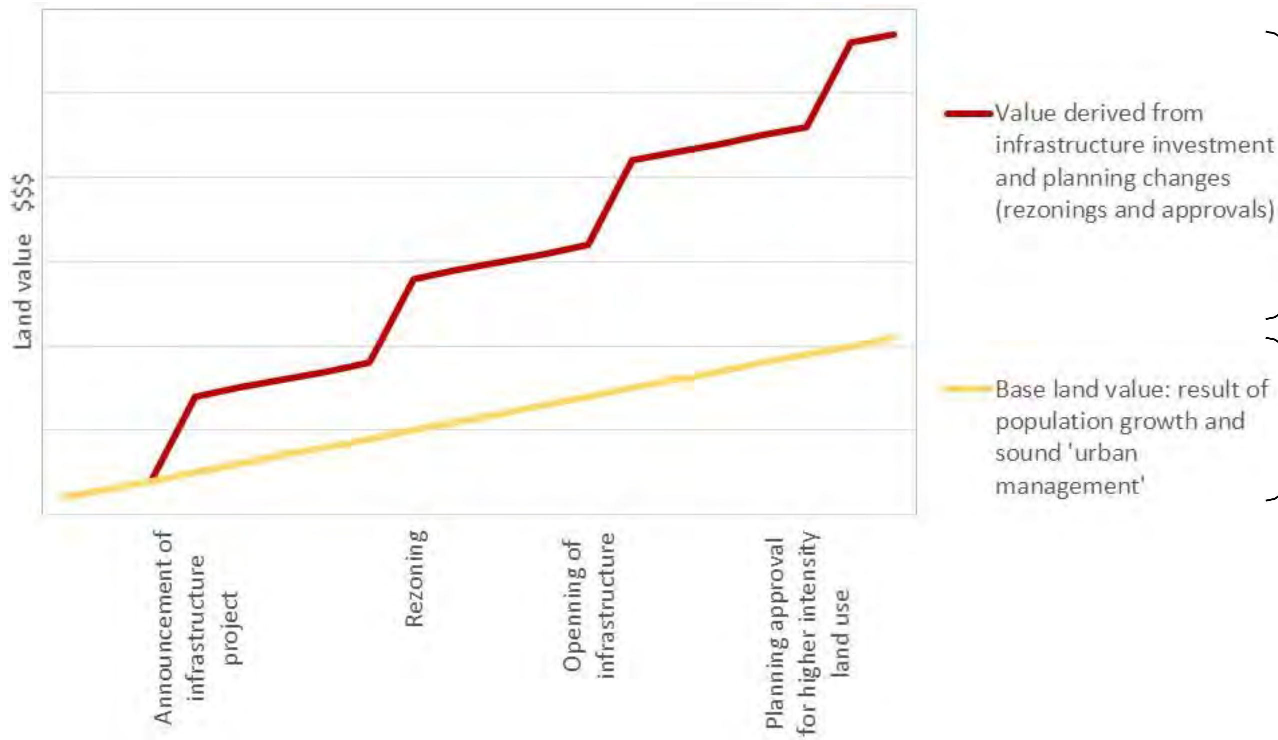
Outline

- Causes of value uplift
- Revenue sources/value capture mechanisms
- Emerging approaches: ‘development license’ fee
- Issues and challenges

Causes of land value uplift



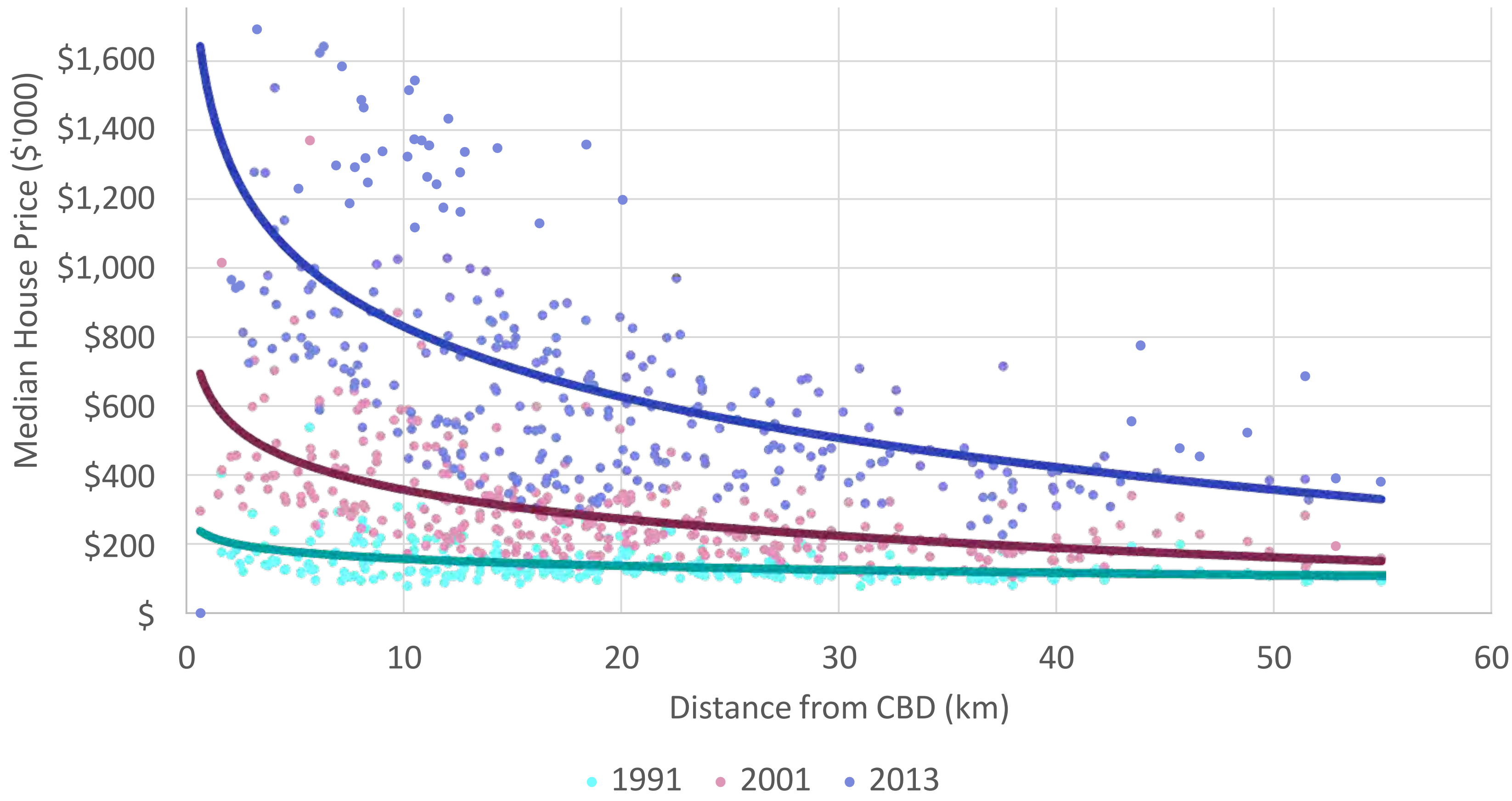
‘One off’ vs recurrent value capture mechanisms



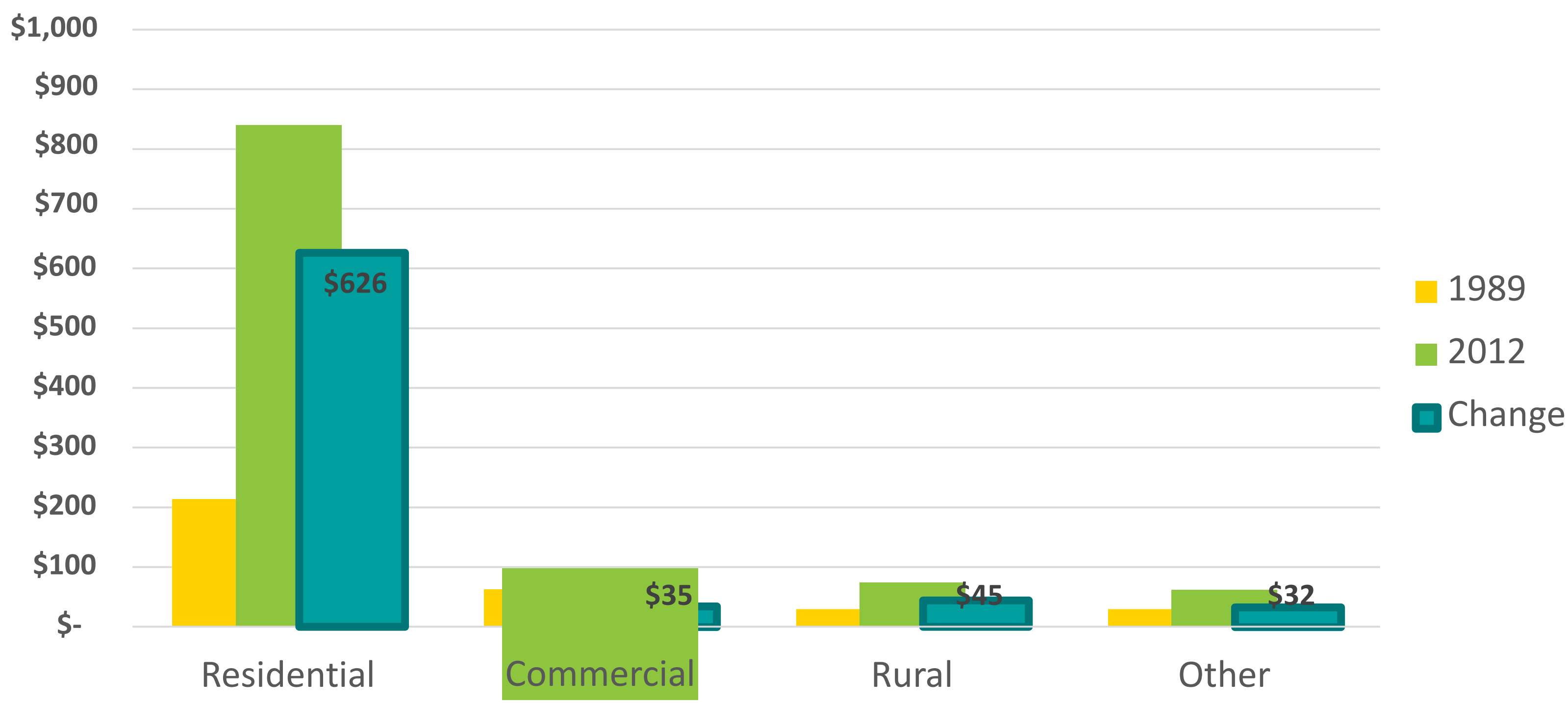
One-off ‘value capture’ mechanisms

Recurrent ‘value capture’ mechanisms

Melbourne median house price

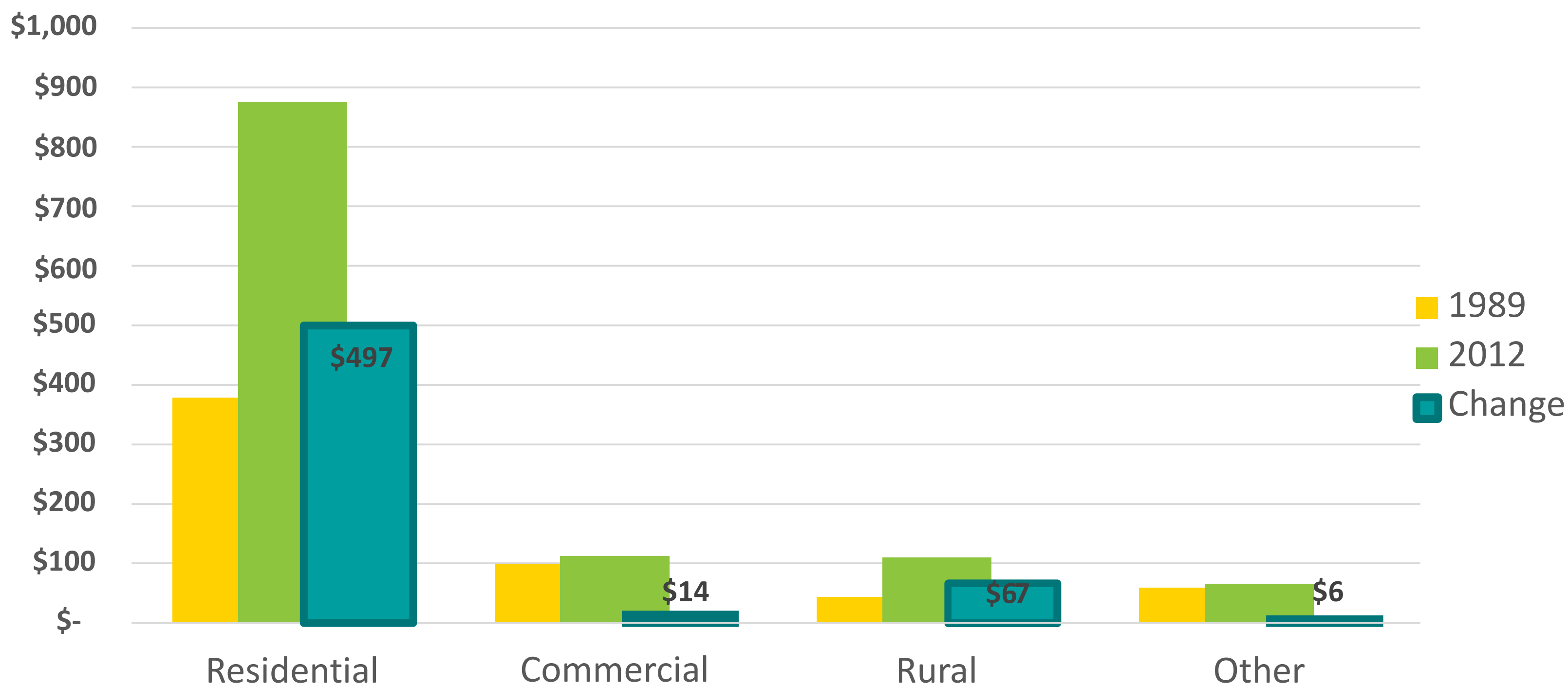


Total land value, Victoria ($B)



Source: ABS National Accounts

Total land value, NSW ($B)



Source: ABS National Accounts

Value capture mechanisms

Local	State/Territory	Federal
Open space levies	State infrastructure charges	
Development contributions (s94; DCPs)		
Planning permit conditions		
	'Change of use' charges (ACT)	
Negotiated ('voluntary') planning agreements		
Betterment charges/development licences fees	Sale or auction of government land, 'air rights' or development rights	
User charges	Other asset sales	Taxes: GST, CGT, company, payroll and income tax
Special rates schemes	Stamp duty	
	Land tax	
General rates		

Hypothecated to a specific precinct of region

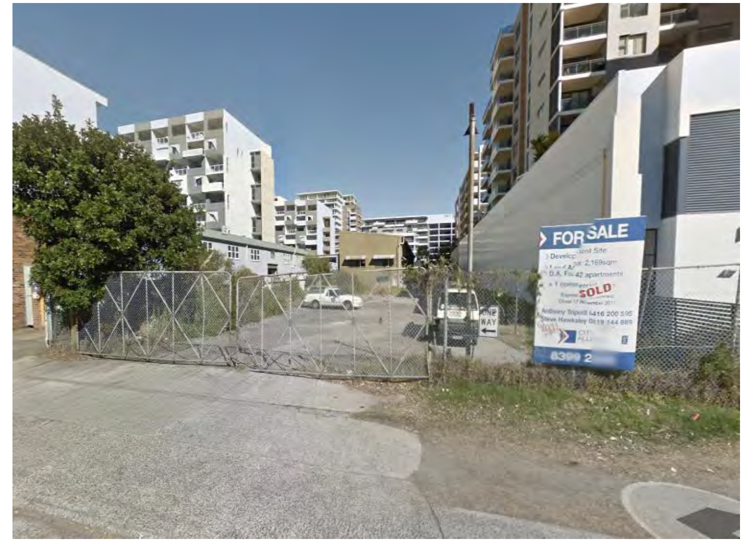
General revenue

Planning and windfall gains

- Planning policies allocate development opportunities to those locations to ensure proper planning and function of the city of region
- This rationing of development potential or ‘development rights’ increases the value of particular precincts or sites
- Restricted access provides windfall gain for the land owner (‘unearned increment’)
- Planning authorities as ‘monopoly suppliers’ as development rights could, on behalf of the community, charge an access or licence fee
- Similar to other market where access is restricted for community benefit (fisheries, mineral resources, taxis – per Uber).

Windfall gains from approvals

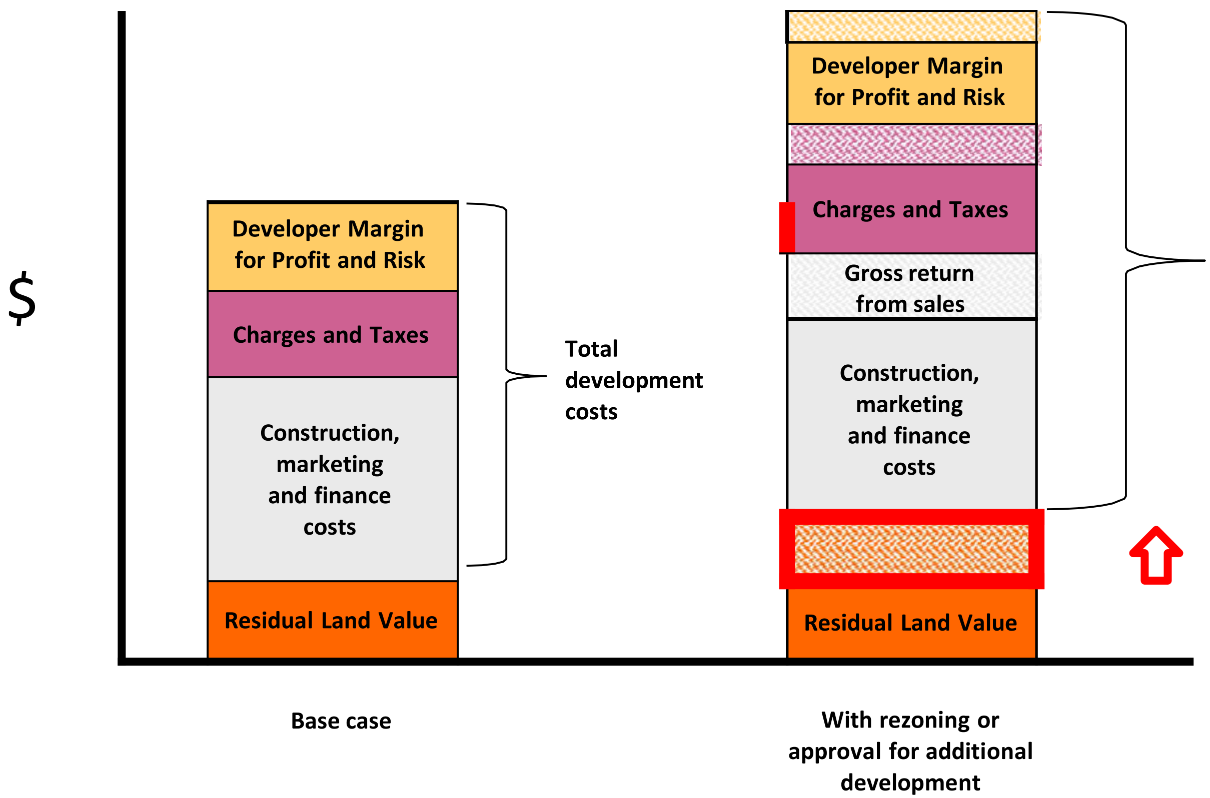
- 27 Church Avenue, Mascot
- 2200 sqm site
- Zoning: B4 Mixed Use
- FSR/FAR 3.2:1
- Sold in 2007 for $1.17 million
- Sold in 2013 with approval for 42 apartments for $4.8 million
- **4 times increase in land value as a result of planning approval**
- **Value of development rights approximately $1,200 per sqm of development**



Windfall gains from approvals 2

- 8 Bouverie Street, Carlton
- 22,900 sqm site
- Zoning: Capital City Zone
- Development approval for 1037 apartments and 2,254sqm of retail
- Sold in 2015 in $64.8 million
- Initially purchased in 2013 for half the 2015 sale price.
- **Doubling of land value with planning approval**
- **Value of 'development rights' approximately $1,200 per sqm of development**

Residual land value (RLV) uplift



Total development costs with additional development. All costs including developer margin increase.

Land value increases from the base reflecting the prospect of additional accessibility to amenities and infrastructure created by the rezoning.

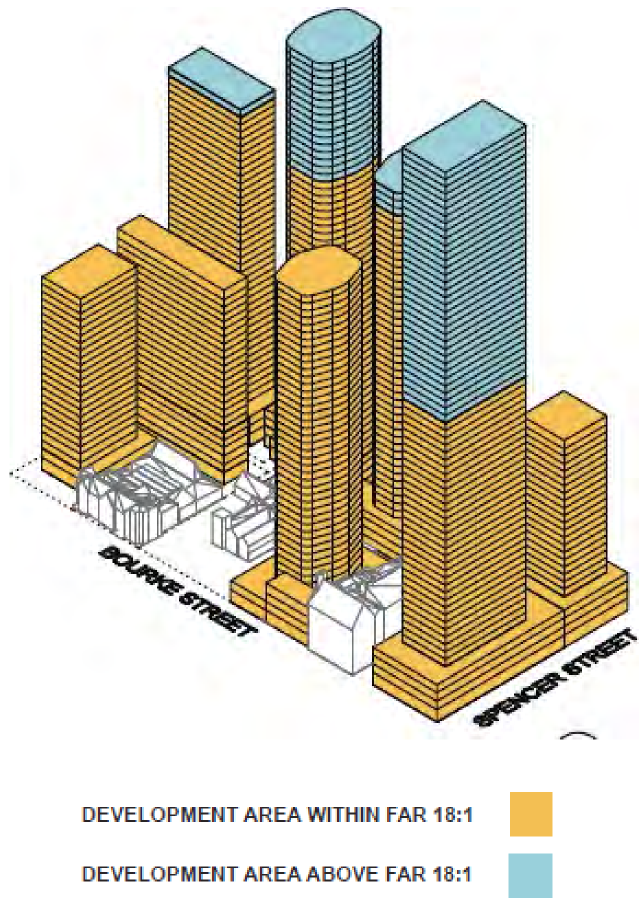
This value is **not created** by the land owner or developer and a share is appropriately captured for the community.

Problems of current practices…

- When negotiating VPA stakeholders face completing objectives:
  - Council: maximise VPA value **vs** encouraging appropriate development
  - Developer: minimising costs **vs** getting the development over the line
- Issues:
  - How to value the uplift?
  - How should the ‘captured’ value be used?
  - How to ensure transparent processes?

Central City Built Form Review

- City of Melbourne Planning Amendment C270
- Initiated over concerns about the density of development; impacts of development on the quality of public realm
- Re-introduction of Floor Area Ratios (FAR)
- Floor space up to 18:1 FAR available 'as of right'
- Floor space above 18:1 designated as Floor Aprea Uplift (FAU)
- Access to FAU is contingent on the provisions by the proponent of 'Defined Community Benefits'



http://delwp.vic.gov.au/planning/policy-and-strategy/central-city-built-form-review

Calculating Community Benefit

Table 1 – GROSS REALISATION VALUES per square metre (GRV/m²) 1 January 2016

USE	PRECINCT (see Fig.1)							
	Eastern Core	North Eastern	Civic	Flagstaff	Western Core	Spencer	Southbank	Docklands
Retail	$17,000	$14,000	$16,000	$15,000	$17,000	$14,000	$12,000	$14,000
Hospitality	$9,000	$8,000	$8,000	$7,000	$7,500	$6,500	$6,500	$6,500
Commercial	$9,000	$6,000	$7,000	$5,500	$7,000	$5,000	$5,000	$5,000
Residential	$9,000	$8,000	$8,000	$7,000	$7,500	$6,500	$6,500	$6,500

- Calibrated to land value increase
- Residual land value increase calculated at 10% of the gross realisation value (GRV) of the additional floor space
- Equates to an 80% share of the RLV increase

Defined Community Benefits

Under the provisions of Amendment C270, contributions must be directed towards:

- Public spaces (in additional to any mandatory contributions)
- Floor space for public facilities (e.g. libraries, community hubs, etc.)
- Social housing within the proposed building
- Competitive design process for design of proposed building
- Commercial office use on site or within proposed building

Valuing Community Benefits

Public Benefit category	Description and Components	Valuation (and Estimated Value)
Publicly accessible open areas on site (additional to any public open space contribution under Clause 52.01 of the Planning Scheme)	Plazas, laneways, parks directly accessible from public street or public area. The provision may include one or more of the following components: a) An area whose title is transferred to a public authority, municipal council or the Crown b) An area retained in private ownership with a legal encumbrance to provide unrestricted public access and an appropriate private maintenance regime c) Civil works such as paving, walls, canopies, artworks, furniture, planting, irrigation, drainage and ancillary works necessary for the proper functioning of the area (but excluding site preparation and any sub-structure), to the satisfaction of the receiving agency	The valuation may include one or more of the following components (corresponding to the Description and Components at left): a) Independent market valuation of the transferred land based on location *(est. \$15,000 - 25,000 / m²)* b) Two thirds of independent market valuation of the land prior to encumbrance based on location *(est. \$10,000 – 17,000 / m²)* c) Independent quantity surveyor valuation of the civil works *(Hard landscaped areas: est. \$1,500 – 2,500 / m²)* *(Soft landscaped areas: est. \$1,000 – 1,500 / m²)*

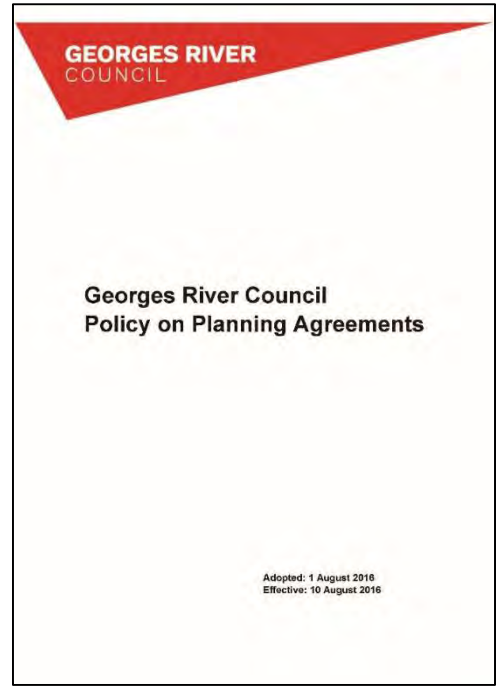
Worked example

- Site of 2,000 sqm with development proposal with FAR of 24:1 in the ‘Flagstaff precinct’
- 12,000 sqm of the floor space is FAU (6:1 that is above 18:1)
- Uplift valued at 10% of GRV: 12,000 sqm x $7,000 x 10% = $8.4 million

- Package of Community Benefits to meet obligation:
  - Four social housing units (4 x 100 sqm x $7000 sqm = $2.8M)
  - 250 sqm of land transferred to Council for plaza ($20,000 sqm x 250 sqm = $5.0M)
  - Civil works on gifted land to provide a plaza ($2,400 sqm x $2500 sqm = $0.6M)
  - Total value: $2.8M + 5.0M + 0.6M = $8.4 million

Georges River VPA policy

- Georges River Council Voluntary Planning Agreement policy
- Proponents seeking to exceed existing planning requirements routinely negotiate VPAs with Council
- Agreeing to VPAs is complicated by lack of transparent method of calculating uplift
- Solution: pre-schedules rate of land value uplift associated with additional floor space

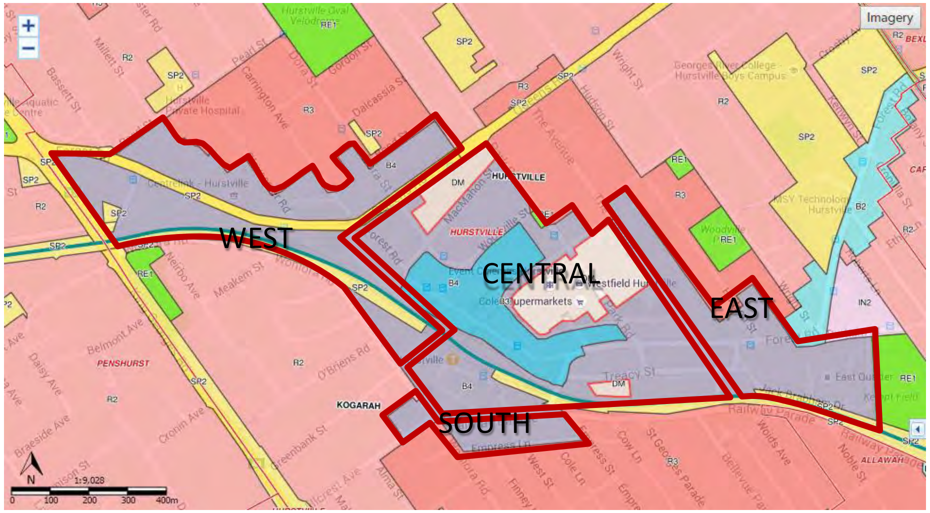

GEORGES RIVER
COUNCIL

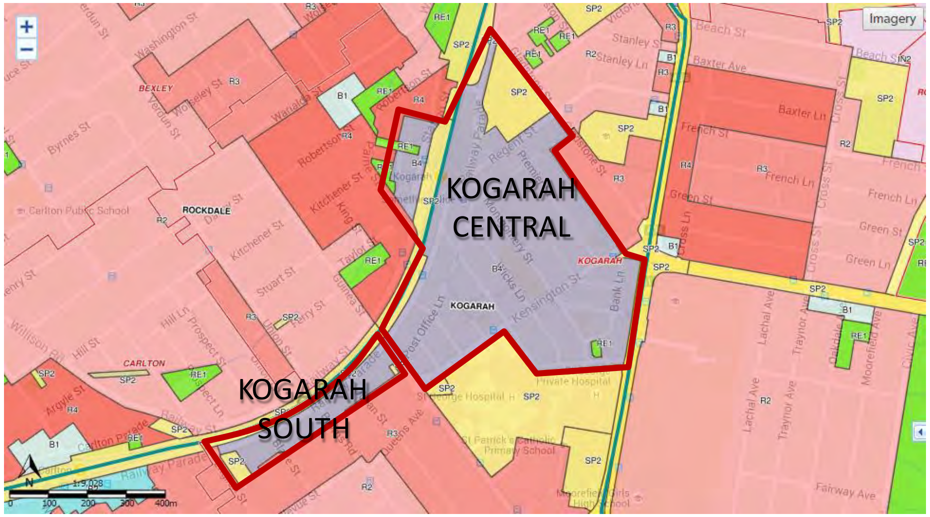
Georges River Council
Policy on Planning Agreements

Adopted: 1 August 2016
Effective: 10 August 2016

http://www.georgesriver.nsw.gov.au/BUILDING/Planning-Agreements

Precincts – Hurstville and Kogarah





Pre-scheduled land value uplift rates

Residual Land Value (RLV) per square metres of floor space by precinct within Hurstville and Kogarah (as defined by the maps below)

Use	**Hurstville Central**	**Hurstville West**	**Hurstville East**	**Hurstville South**	**Kogarah Central**	**Kogarah West**
Retail	$5,000	$2,000	$2,000	$2,000	$3,500	$2,500
Commercial (office)	$1,750	$1,500	$1,500	$1,750	$2,000	$1,850
Residential	$2,750	$2,500	$2,500	$2,750	$3,000	$2,750

Calculating VPA value

$$C = \frac{RLV(2) - RLV(1)}{2}$$

Where:

C	=	Monetary contribution
RLV (2)	=	Residual land value of a site following either an instrument change, plus associated or consequential changes to any Hurstville or Kogarah Development Control Plan(s), applying to the site, or the consent to development on the site allowing an exceedance of development standards or other planning controls, which in both cases allow intensified development.
RLV (1)	=	Residual value of a site under the existing the LEP and Hurstville or Kogarah Development Control Plan provisions.

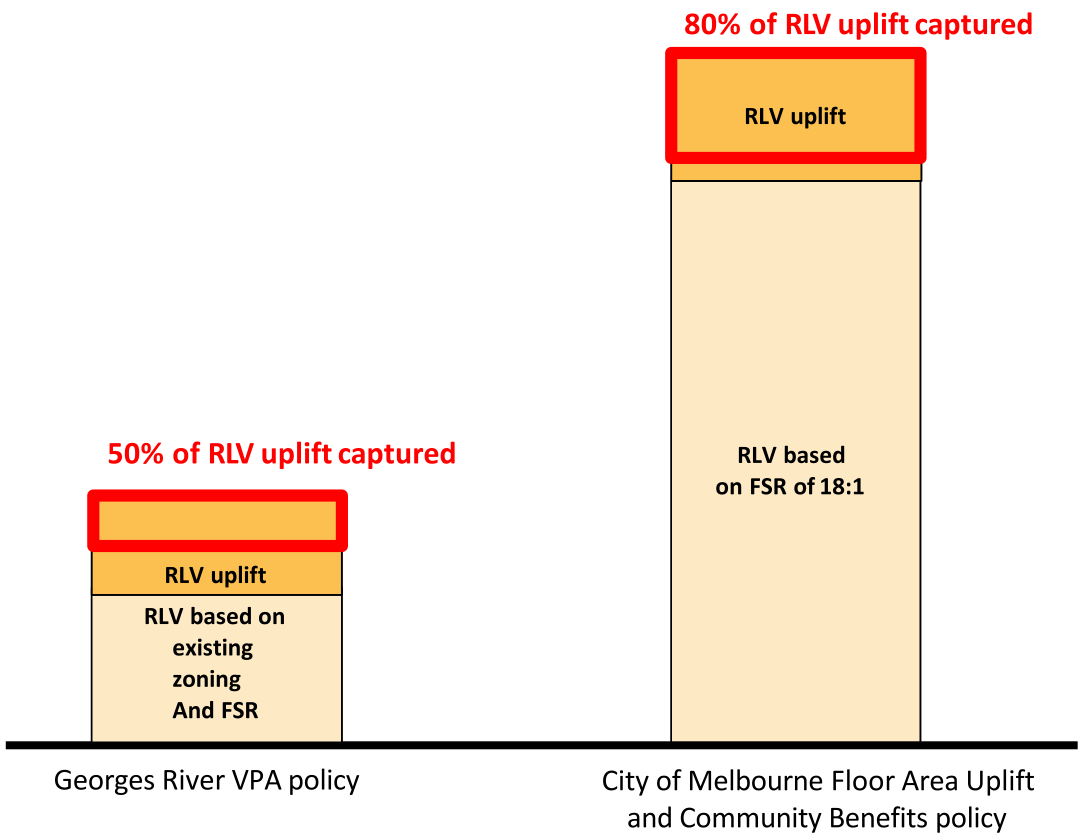
- Contributions used for: infrastructure, community facilities, public open space and public domain improvements, other contributions (cash contributions, land dedications for parks, aboriginal site protection, etc.)

Worked example - rezoning

RLV(1) Existing controls - B3; FSR 3:1	**Area**	**RLV/square metre**	**Residual Land Value**
Retail floorspace	500 sqm	$2,000	$1,000,000
Commercial floorspace	7,000 sqm	$1,500	$10,500,000
Total	7,500 sqm		$11,500,000
RLV (2) Proposal - B4; FSR 3.5:1	**Area**	**RLV/square metre**	**Residual Land Value**
Retail floorspace	500 sqm	$2,000	$1,000,000
Commercial floorspace	1,000 sqm	$1,500	$1,500,000
Residential floorspace	7,250 sqm	$2,500	$18,125,000
Total	8,750 sqm		$20,625,000
Land value uplift from development application			
RLV (2) – RLV (1)			$9,125,000
Value capture/financial contribution amount for VPA			
[RLV (2) – RLV (1)] x 50%			$4,562,500

Source: SGS Economics & Planning Pty Ltd, 2016.

Approach compared



Issues and challenges

- State is the major beneficiary of land and property based revenues (land tax, stamp duties).
- Limited hypothecation of revenues to host precincts/regions.
- Existing Council extractions (e.g. development contributions, impact mitigation works, rates, special rates) are general cost recovery mechanisms.
- Lack of existing mechanisms for capturing windfall gains in a transparent and efficient manner.

Four development contribution frames

USER PAYS CONTRIBUTIONS FOR OFF-SITE INFRASTRUCTURE	IMPACT MITIGATION	VALUE SHARING	INCLUSIONARY REQUIREMENTS / DEVELOPMENT STANDARDS (CASH-IN-LIEU)
APPORTIONMENT PRINCIPLE Proponents pay according to share of usage of planned infrastructure	**APPORTIONMENT PRINCIPLE** Proponents are responsible for 100% of the cost of making good unanticipated off-site effects, including infrastructure impacts	**APPORTIONMENT PRINCIPLE** Proponents are required to share part of the uplift in land value occasioned by re-zoning or granting of a development approval	**APPORTIONMENT PRINCIPLE** Proponents must meet certain development standards on site or pay for these to be satisfied off-site
EXAMPLES DCPs for various infrastructure items including roads, water cycle management and community facilities	**EXAMPLES** Make good conditions on development approvals	**EXAMPLES** Agreements for value sharing struck at planning scheme amendment stage or in development conditions. Growth Area Infrastructure Contribution in greenfield locations	**EXAMPLES** Parking requirements and cash in lieu schemes Open space requirements and cash in lieu schemes

How does productivity capture work?

(Terry Rawnsley)

Outline

- What drives GDP? – Population, Participation, Productivity
- How does this flow through to taxation revenues?
  - Local Government taxes
  - Income tax
  - Company tax
  - Other Taxes (e.g. Payroll tax, GST).
- How does an infrastructure project increase GDP and taxes?

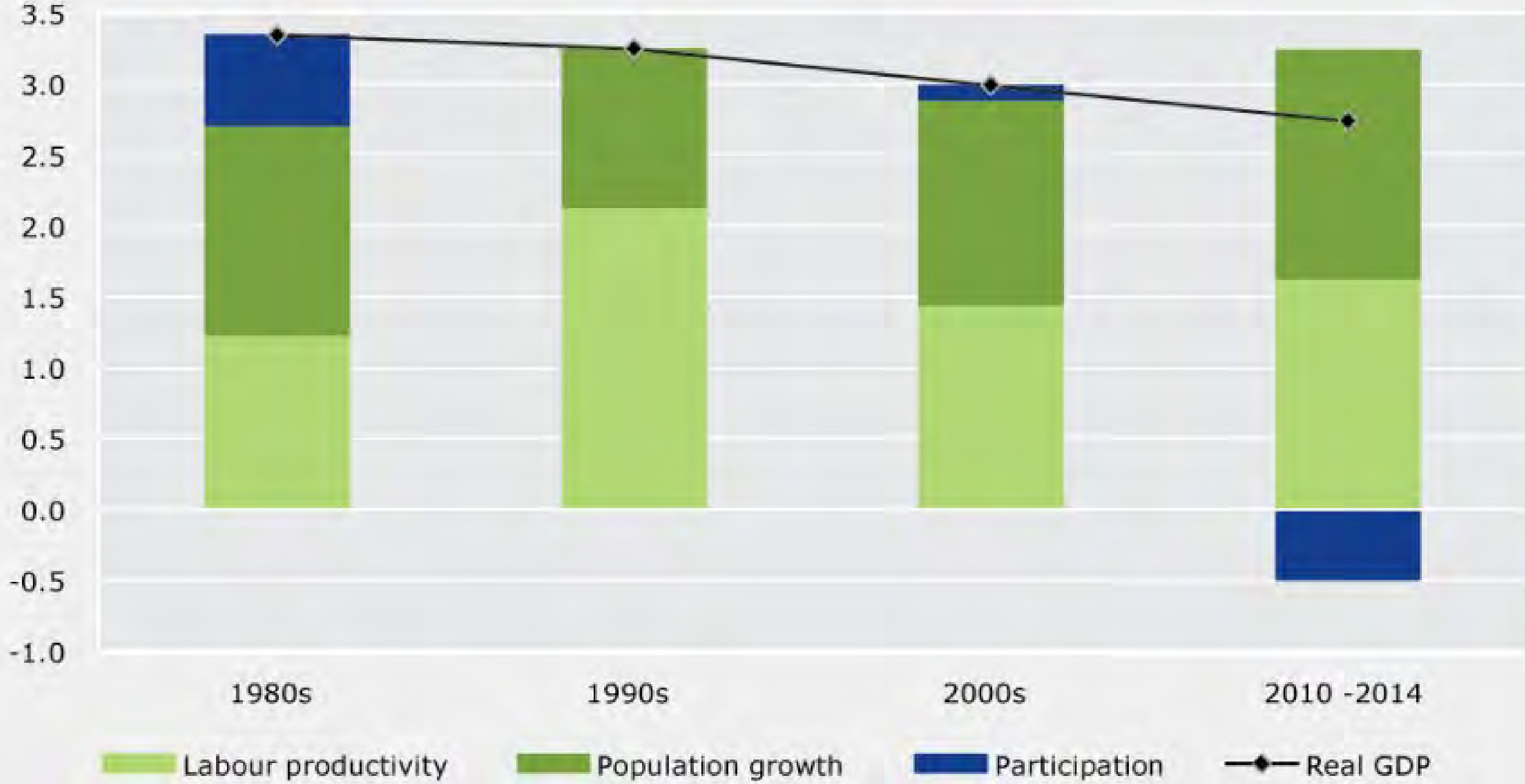
Three Ps

- **Population** more people increasing demand for goods and services.
- **Participation** more people in the labour force generating goods and services.
- **Productivity** producing more goods and services with a given set of inputs.

Three Ps and GDP Growth

Figure 2.1 Contributions to the growth in aggregate real GDP[a]

Per cent



[a] Decades/periods are based on years ending in June. For example the 1980s refers to the 1979-80 to 1989-90 period, ... , the 2000s refers to 1999-00 to 2009-10.

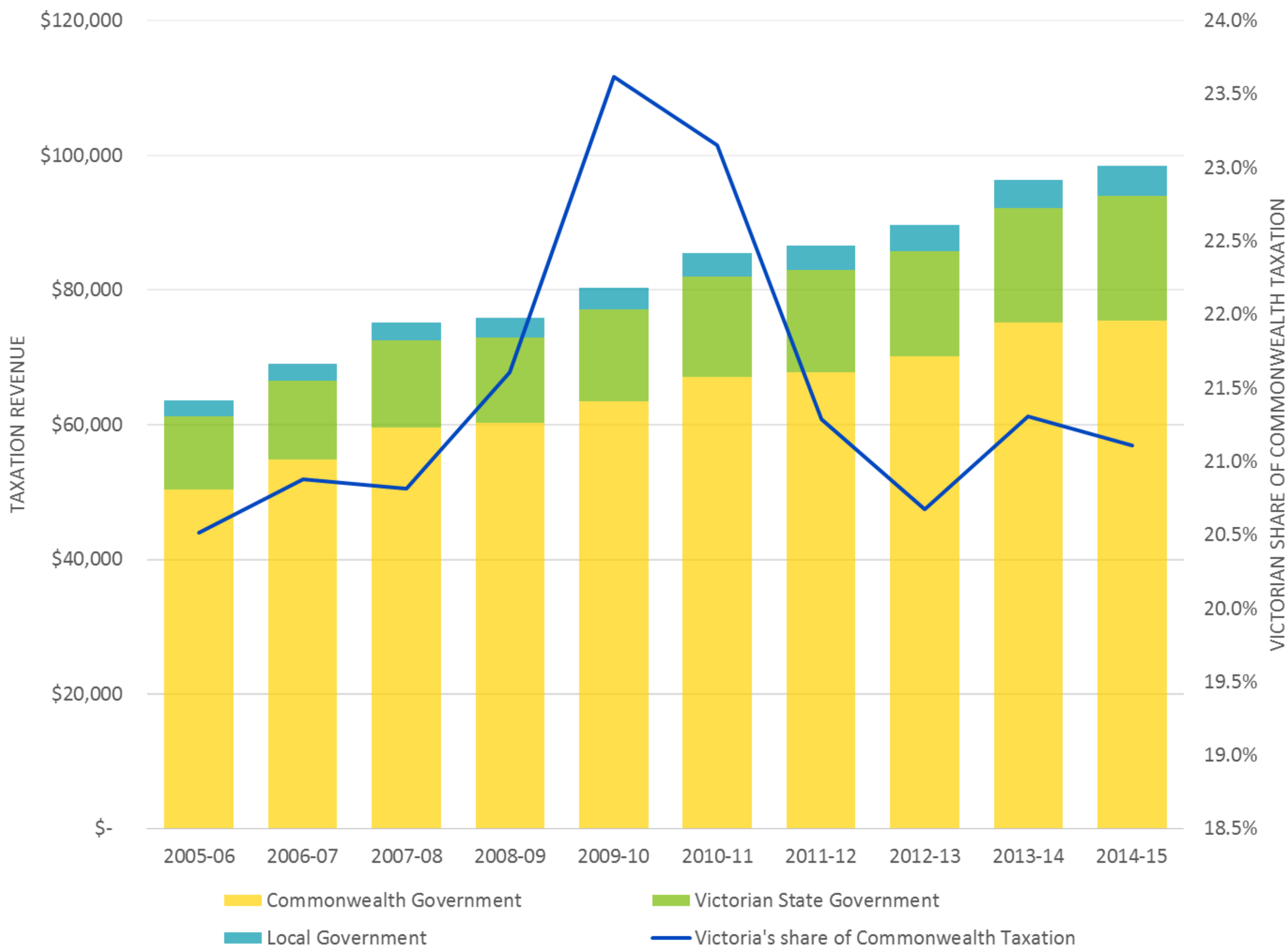
Sources: Estimates based on ABS (*Labour Force, Australia, Cat no. 6202.0; Population by Age and Sex, Australian States and Territories*, Cat. no. 3201.0; *Australian National Accounts: National Income, Expenditure and Product*, Cat. no. 5206.0; and *Labour Force Historical Time series, Australia, 1966 to 1984*, Cat. no. 6204.0.55.001).

Taxes

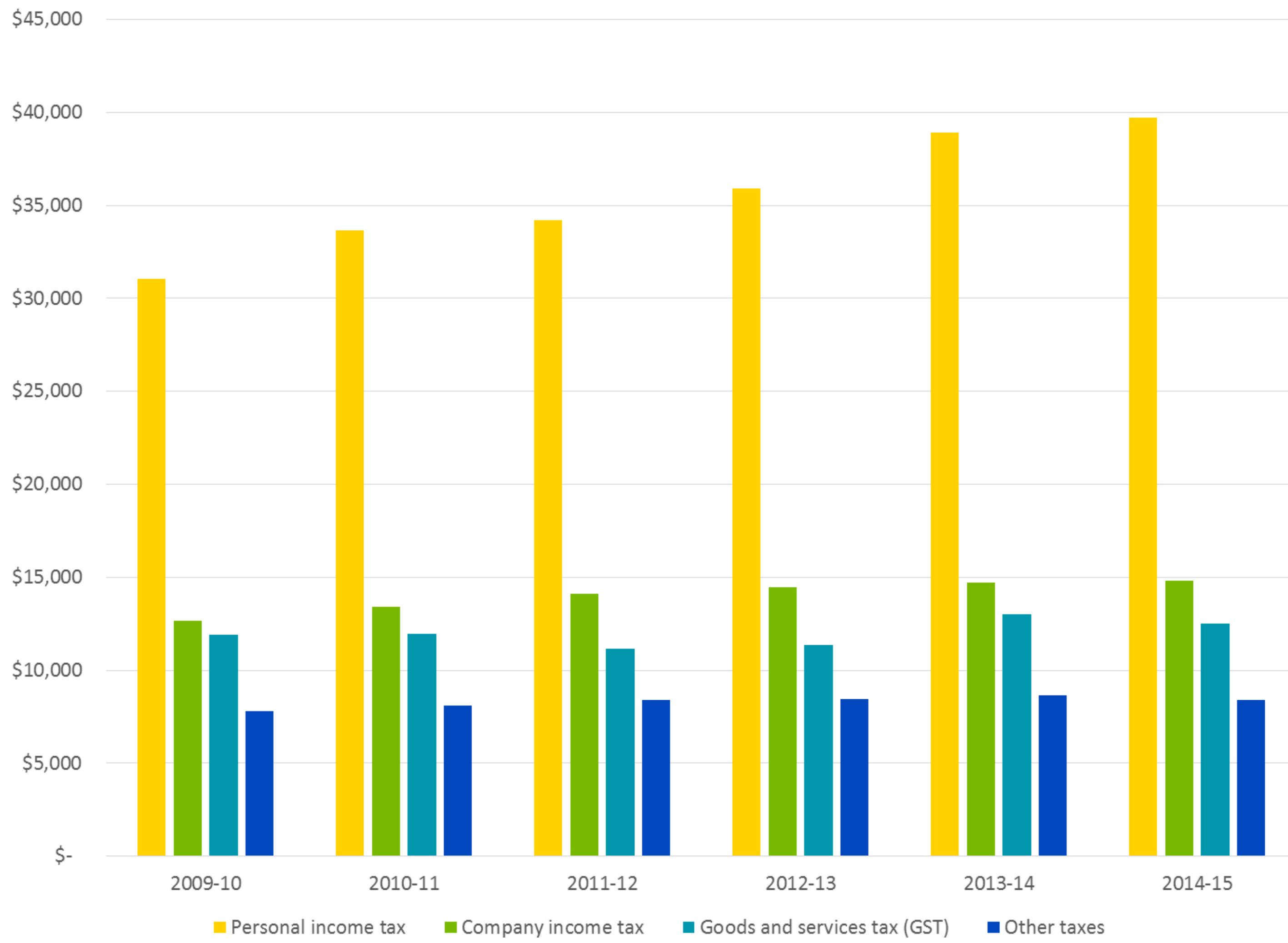
- **Income taxes**: E.g. Company and Personal
- **Transactions**: E.g. Stamp duty, GST
- **Property taxes:** Land taxes
- **Other**: Resource rent taxes

Collected by Local, State and Commonwealth Governments.

Victorian Generated Taxation



Victorian Commonwealth Taxes



CityLink Example

CityLink History

- The completion of many of the planned freeways of the 1950s and 60s, meant that by the late 1980s Melbourne was served by several freeways that terminated in its inner suburbs, generally five kilometres from the centre.

- Once traffic left these freeways, it was distributed onto arterial and local roads, resulting in gridlock and some roads, notably King, Spencer and Swanston Streets performing the function of arterial roads. Some residential and urban streets were handling volumes of up to 80% greater than their planned capacity.

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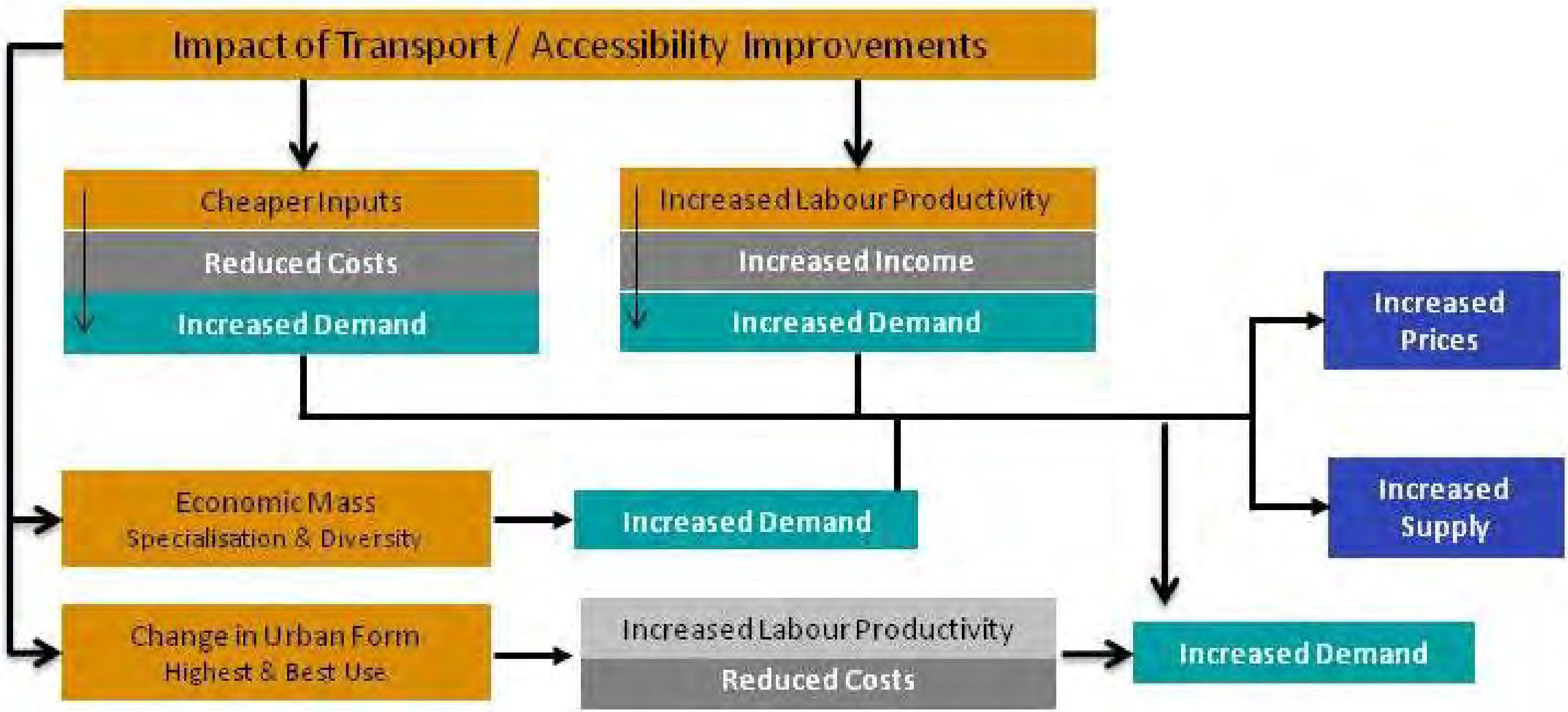
CityLink History

- While a proportion of this traffic was bound for the city centre, many trips were cross town, with destinations beyond the Central City. This forced through the CBD as there was no bypass available. During the 1980s Melbourne City Council advocated for a western bypass for the City.

- Originally proposed as a city bypass route, the final design included the Exhibition Street extension that provided CBD access, via Batman Avenue, to the Monash Freeway and CityLink.

- This link provided access over the rail yards east of Flinders Street station and allowed the Route 70 tram to be rerouted to dedicated tracks between the sporting precincts. The City of Melbourne was a primary supporter of this extension, partly because it enabled traffic to enter and exit the city without the use of Swanston Street or local roads in Southbank.

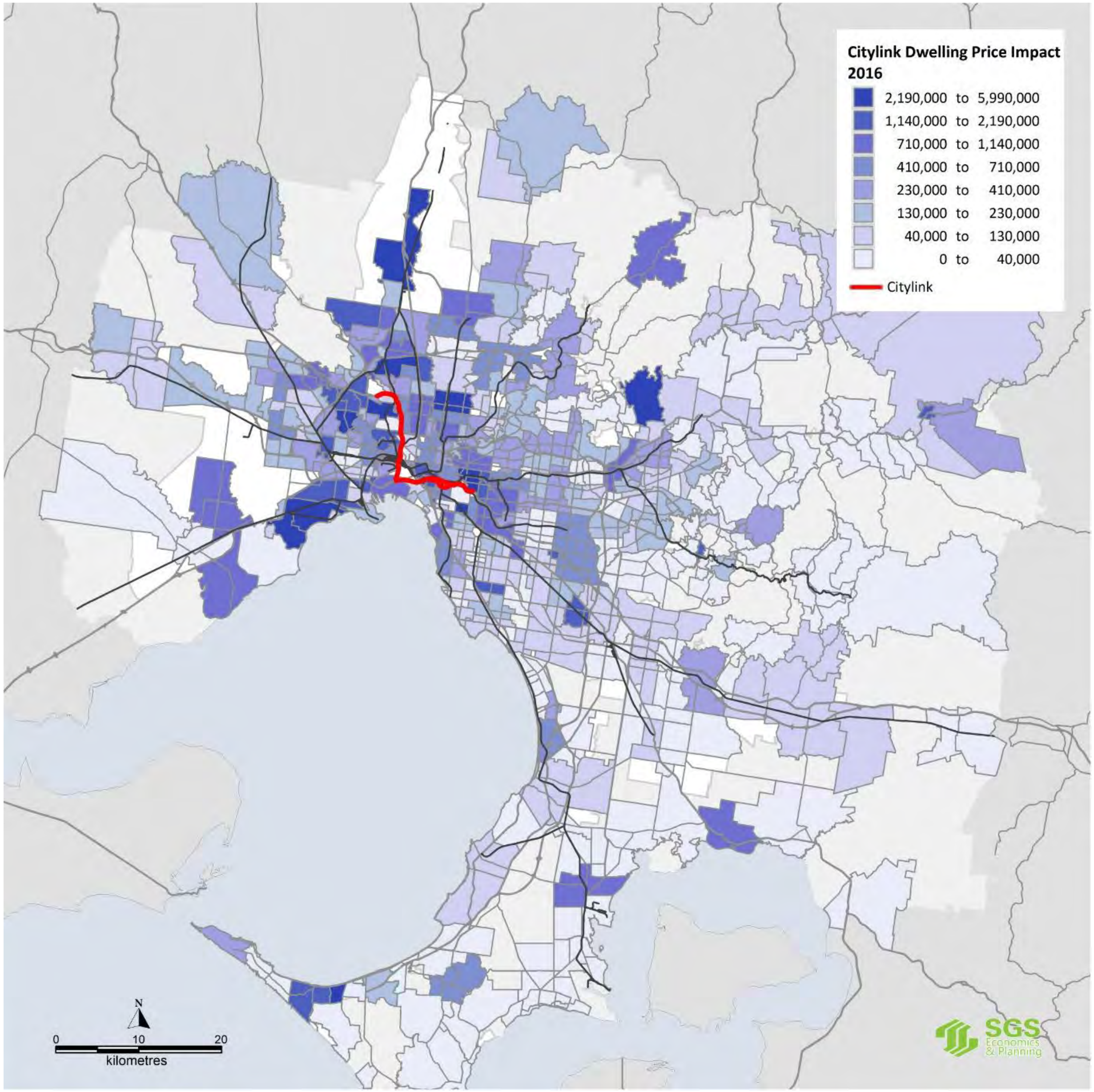
Conceptual Flow of benefits



CityLink Impact

CityLink				
Economic Overview	**2001**	**2006**	**2011**	**2016**
Melbourne GDP	$ 194,614	$ 234,109	$ 269,608	$ 303,560
Economic uplift	$ 393.4	$ 2,361	$ 4,169	$ 4,738
Impact on GDP	0.2%	1.0%	1.5%	1.6%
Taxation	**2001**	**2006**	**2011**	**2016**
Local Taxes	$ 6.7	$ 80.7	$ 104.3	$ 131.4
State Taxes	$ 19.7	$ 187.3	$ 312.0	$ 384.0
Employers' payroll taxes	$ 7.0	$ 42.0	$ 74.4	$ 84.1
Stamp duties on conveyances	$ 10.0	$ 119.7	$ 195.0	$ 247.4
Other taxes & charges	$ 2.7	$ 25.6	$ 42.6	$ 52.4
Commonwealth taxes	$ 86.6	$ 519.8	$ 937.8	$ 1,075.9
Personal taxes	$ 48.7	$ 292.6	$ 542.0	$ 622.8
Company taxes	$ 37.9	$ 227.2	$ 395.8	$ 453.1
Total Taxes	**$ 113.0**	**$ 787.8**	**$ 1,354.1**	**$ 1,591.3**
Tax Share	**2001**	**2006**	**2011**	**2016**
Local Taxes	5.9%	10.2%	7.7%	8.3%
State Taxes	17.4%	23.8%	23.0%	24.1%
Commonwealth taxes	76.7%	66.0%	69.3%	67.6%
Total Taxes	**100.0%**	**100%**	**100%**	**100%**

Land Value Uplift



How to build the business case?

(Andrew McDougall)

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How to build the business case?

- What is a business case for government investment?
  - Part of a staged/ gated process
  - A rigorous answering of specific questions

- What are the key components of a business case?
  - Detailed list of questions
  - Indicative table of contents
  - Usual development processes/ skills

- What might be considered best practice?
  - Links to best practice guidelines

A business case is part of a staged process

Gate 0: Project identification	resourcing for business case development
Gate 1: Strategic assessment	preliminary business case
Gate 2: Business case	full/ final business case

- Gate 3: Readiness for market
- Gate 4: Tender decision
- Gate 5: Readiness for service
- Gate 6: Benefits evaluation

Business cases answer specific questions

Rationale

- Is there a compelling case for investment?
  - What are the underlying problems that need solving?
  - What are the project's specific objectives? How will they be measured?
  - How do these objectives align with government policy priorities?

Options

- What are the options for solving the problem?
  - One option is always doing nothing/ the minimum
  - What scope/ timing elements are included in each option?
  - How does each option deliver on the project's objectives?

Analysis

- Which option will provide the best solution?
  - How does each option compare from a financial, socio-economic & risk perspective?
  - What is the preferred option?

Delivery

- Can the preferred option be feasibly delivered?
  - What implementation arrangement are necessary/ in place?
  - How will risks be managed on an ongoing basis?

Indicative table of contents

Rationale

- The case for change: need, priority, benefits
- Stakeholder perspectives
- SMART benefit measures

Options

- Options identification
- Options short-listing rationale
- Short listed options

Analysis

- Financial appraisal
- Economic appraisal
- Risk management
- Integrated assessment

Delivery

- Procurement
- Governance
- Risk monitoring
- Implementation plan
- Change management
- Stakeholder engagement
- Resourcing

Developed and documented in a manner that is:

- Logical
- Compelling
- Rigorous, and
- Transparent

Usual skills/ processes required

- Stakeholder engagement – clear articulation of problem, ongoing stakeholder engagement
- Research – evidence of problem, role of government in solving problem, government priorities
- Architectural/ engineering/ quantity surveyor – concept design and costs of potential solutions
- Financial – costs and revenues of potential solutions
- Economic – socioeconomic and environmental costs and benefits of potential solutions
- Risk – risk register, monitoring and response
- Project management – coordinated development of business case, detailed implementation arrangements

Best practice guidance

Business case guidelines

http://infrastructureaustralia.gov.au/projects/files/Assessment_Framework_Overview.pdf

https://www.procurepoint.nsw.gov.au/system/files/documents/guidelines_for_capital_business_cases_0.pdf

http://www.dtf.vic.gov.au/Publications/Investment-planning-and-evaluation-publications/Lifecycle-guidance/Stage-guides

https://www.treasury.qld.gov.au/projects-infrastructure/initiatives/project-assessment-framework/index.php

Gateway review process

http://finance.gov.au/assurance-reviews/review-process/

http://www.dtf.vic.gov.au/Publications/Investment-planning-and-evaluation-publications/Gateway/Gateway-review-process-Guidance-materials

https://www.procurepoint.nsw.gov.au/system/files/documents/procurement_process_and_gateway_diagram.pdf

https://www.treasury.qld.gov.au/publications-resources/gateway-review-process-guidelines/gateway-brochure.pdf