24 June 2016

Mr Michel Masson
Chief Executive Officer
Infrastructure Victoria


Dear Mr Masson,

Re: All Things Considered Options Paper

Thank you for the opportunity to provide a submission on the above paper.

The Property Council of Australia is the largest and most active advocacy organisation in the property industry. The Victorian Division’s infrastructure policy is informed by the Industrial, Infrastructure and Logistics Committee, the Planning Committee and the Sustainability Committee.

The Property Council is committed to the long term economic prosperity of Victoria, which in turn creates jobs and strong, liveable communities. The presence of world class infrastructure is vital to securing Victoria’s investment, employment, manufacturing, export and growth into the future.

Please find attached the Property Council’s submission which addresses a range of the options for consideration. Those chapters and/or options that are outside of the Property Council’s policy agenda have not been addressed.

Please contact Linda Allison, Policy and Business Development Executive on 9650 8300 or lallison@propertycouncil.com.au if you require further information.

Yours sincerely

[Signature]

Asher Judah
Acting Victorian Executive Director
Property Council of Australia
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Executive Summary

The Property Council welcomes the opportunity to provide input to Infrastructure Victoria’s options paper. The Property Council supports Infrastructure Victoria’s consultative approach, and its commitment to evidence-based research.

Property Council members are investors in cities and have an inherent interest in seeing them prosper. Our members understand the need to improve cities’ productivity, sustainability and livability. Infrastructure provision is the cornerstone of these improvements.

There are many options in the paper that deserve further investigation. The Property Council notes that there are more options that can possibly be implemented, due to the finite nature of funding, and potential competing needs of different stakeholders.

While the Property Council agrees that land use and infrastructure planning must go hand in hand, we are concerned that many of the options relating to land use planning listed in All Things Considered are currently well progressed or under review by Government. The Property Council believes that Infrastructure Victoria must work with government departments and agencies on land use planning issues, but should not be the lead agency in the planning sphere. Therefore we have viewed many of the options herewith as out of Infrastructure Victoria’s remit. In developing its 30 year strategy, Infrastructure Victoria should integrate its priorities with major planning strategies such as Plan Melbourne.

The Property Council has provided support to many of the options listed in All Things Considered. This support is conditional on appropriate cost-benefit analyses being undertaken.

In developing a 30 year strategy for infrastructure, it is essential to consider how such projects will be funded and financed. Before addressing funding and financing options, it is important to understand the current context of existing state taxes, levies, contributions and fees. This is particularly important for the Victorian property industry, which currently contributes in excess of 50 per cent of state revenue (primarily through transfer duties and land tax) and myriad of developer charges. While the composition of state funding is out of scope of Infrastructure Victoria’s mandate, recommendations relating to alternative funding and financing arrangements must be considered within the context of the current state taxation system.
The Property Industry’s contribution to the economy

The Property Council of Australia is the largest and most active advocacy organisation in the property industry. We have 2,200 member companies that represent property assets worth over $670 billion. Approximately 500 of these members are part of the Victorian Division.

Members of the Property Council represent the entire property investment cycle: finance, design, development, property maintenance and the services that underpin the sector.

The industry is the State’s greatest taxpayer and employer. It is the third biggest generator of economic output. It is responsible for $37.5 billion of direct and indirect economic output.

Through our advocacy the Property Council is committed to the long term economic prosperity of Victoria, which in turn creates jobs and strong, liveable communities.

The Property Council’s contribution to infrastructure policy

The Property Council has long advocated for the establishment of Infrastructure Victoria as an important authority to create a long term, state-wide infrastructure strategy outside of election cycles. It is critical to plan for Victoria’s future population growth, and shape greater Melbourne and the regions to accommodate such growth.

The Property Council commends Infrastructure Victoria’s consultative approach to date, and its commitment to thorough, evidence-based research. Moreover, All things considered provides a solid platform to form the draft 30 year strategy.

The Property Council is a leader in the infrastructure financing debate in Victoria and nation-wide, with a range of publications including:

- Finding $50B, New ways to fund and finance infrastructure
- 20 Projects, Victoria’s Best Infrastructure Sites
- Securing Victoria’s Future, a program to plan, fund and deliver infrastructure
- Supercharging the Economy, ideas for reform
- Introducing UK City Deals, a smart approach to supercharging economic growth and productivity.

All of the above publications are available in the public domain.

Format of this submission

The Property Council will address the options listed in the paper in the following manner:

- Options supported by the industry will be addressed individually
- Chapters and options outside the Property Council’s policy agenda will not be addressed
- Options which the Property Council considers to be already managed by Government Departments or statutory authorities will be given minimal consideration.
The Property Council’s Response to the Options

1. Address Infrastructure Demands in Areas with High Population Growth

The Property Council concurs with Infrastructure Victoria that infrastructure provision has not kept pace with high population growth in Victoria. Often a proposed solution to the challenge of meeting infrastructure needs is to charge additional levies and fees on the development sector. The Property Council is fundamentally opposed to the introduction of additional fees in this sector. Charging fee upon fee only exacerbates housing affordability in growth areas, and does not address broader issues of strategically managing infrastructure requirements such as arterial road networks, car parking provisions, public transport solutions and employment clusters.

Centralised Planning Scheme (CPS)

The Property Council has a number of key policy directives on how to improve the Victorian planning system without necessarily calling for a CPS. It is our view that the introduction of a CPS would be a revolution in how planning is administered in Victoria, and that local councils and their communities would decry the loss of control over their areas. The Property Council does not support such a radical move, nor do we believe that Infrastructure Victoria should be the lead agency in land use planning. The responsibility for land use and transport planning rests with DEWLP and the Metropolitan Planning Authority.

Sub-regional infrastructure planning (SIP)

Planning on a sub-regional level was one of the high level principles in the original Plan Melbourne document. The Property Council supports the proposition of infrastructure planning on a sub-regional level as we believe that it provides greater economies of scale and better solutions. We are however concerned with how the funding for this model may work. Currently development contributions stop at the municipality boundary. Sub-regional planning and its accompanying infrastructure must go hand in hand.

Urban Development in established areas (UDC)

The Government is currently undertaking a review of residential zones. This issue is currently being managed by the Government and should be out of Infrastructure Victoria’s scope.

Arterial road network employment centre enhancements (ARN)

The Metropolitan Planning Authority (MPA) is already undertaking extensive work on employment centres such as the Monash Employment Cluster. This issue should be should be out of Infrastructure Victoria’s scope.
Community space refurbishment or rationalization (CSR)

The Property Council would support CSR, providing redundant sites become part of an asset recycling program.

Greenfield development sequencing (GFS)

The Property Council endorses the current PSP program in relation to land supply in growth areas. While there are issues relating to employment lands (see FPL), we support the program overall. Issues relating to infrastructure in the growth areas are the remit of the Metropolitan Planning Authority and DEWLP, and should be outside Infrastructure Victoria’s scope.

There are many reasons why an expansive PSP program is critical to both the industry and the Government. Only once a PSP is prepared does the Council, service authorities and the industry have the necessary certainty to plan for future investment in infrastructure and new land estates. It may take a number of years once a PSP is approved for the land to become available and additional time for subsequent estates and development fronts to open up within that PSP area. However, completing the PSP planning is fundamental to the development and service delivery planning process.

All Things Considered flags a desire for heavy handed and highly regulated sequencing of development, at a micro or ‘estate’ level. Such policies as written would simply stop most land estates in their tracks and reflect a lack of understanding of how contemporary masterplanned communities are delivered. Many PSP plans for example reflect the location of existing services in abutting communities and plan for new services to be located away from the initial development front. Catchments for new services take time to build. If services are provided early, a greater recurrent funding subsidy is required to allow those services to operate. Service delivery is complex and many models exist.

It must also be noted that the development front may take several years to reach the proposed location of the planned services, before the land can be made available and the services provided. Councils already have the ability to impose conditions such as those proposed, as appropriate and these can be appealed to VCAT where they are unreasonable, vague or not justified. Generally, each estate has a different service provision context. Councils have the local knowledge and close working relationships with the developers and understand what is practical and achievable.

Instead of capping or sequencing development, the Property Council strongly encourages Government to look at and increase its funding in the growth areas. We will not support a situation where industry is disincentivised or prevented from providing housing in the growth areas when there is clearly huge demand for it to be built. Melbourne’s growth areas provide an opportunity to provide some of the most affordable housing in Melbourne. Consequently, slowing supply through Government policy would represent a lost opportunity.

Growth area train upgrade and provision (GAT)

The Property Council supports expansion in the metropolitan rail network to address population growth. However without a full integrated public transport strategy, increasing capacity in growth areas when there is no additional capacity within central Melbourne is futile. Significant, metropolitan-wide
investment in public transport is required, and the Property Council considers this as a matter of urgency.

**South Yarra Metro Station (SYM)**

Irrespective of whether the current South Yarra Station is included in the Melbourne Metro Rail project, significant investment in “a South Yarra station” is needed. This has already been well documented by relevant stakeholders. If the station is not included in the Metro Rail project, as is the current position, it should be upgraded as a matter of urgency.

It should also be noted that Caulfield station requires a major upgrade to accommodate the increasing growth on the Frankston/Dandenong/Pakenham/Cranbourne lines. New development around the Caulfield precinct and the activity around the University is also placing additional strain on the current outdated facilities. It will also need to accommodate large numbers of commuters interchanging for Melbourne Metro in future years. The time is right to develop a fully integrated multi-modal interchange at Caulfield. An upgrade to South Yarra station should be matched at Caulfield.
2. Address Infrastructure Challenges in areas with low or negative growth

Community space shared use agreements (CSS1)

The Property Council supports greater efficiency in the use of community assets. The most suitable asset class would be school buildings. While this already takes place to a degree, it is important that any shared use of education facilities does not put additional burden on local school communities, and their staff. There are also safety issues associated with multiple users on one site, such as school children interacting with non-school members of the community.

Community and public space utilisation deregulation (CSU)

Better use of public space should be encouraged, however as Infrastructure Victoria has acknowledged in its Draft Options Book, there are a number of red tape issues, particularly relating to insurance which currently preclude the use of such spaces.

In addition, it would be necessary to ensure that deregulation doesn’t become a revenue raising exercise by local councils. For example, in some local council areas, it currently costs over $100 for a member of the public to hire a barbeque and gazebo at a park for a picnic. It would be unfortunate for both the local community, and the development sector if a raft of fees and charges were associated with such an initiative.

Sub-regional Infrastructure planning (SIP)

As mentioned previously, Planning on a sub-regional level was one of the high level principles in the original Plan Melbourne document. The Property Council supports the proposition of infrastructure planning on a sub-regional level as we believe that it provides greater economies of scale and better solutions. We are however concerned with how the funding for this model may work. Currently development contributions stop at the municipality boundary. Sub-regional planning and its accompanying infrastructure must go hand in hand.

Community space refurbishment or rationalization (CSR)

The Property Council would support CSR, providing redundant sites become part of an asset recycling program.
3. Respond to increasing pressure on health care, particular due to ageing

As the population ages, Victorians should have access to a variety of housing options. Retirement villages are an important part of the solution to providing appropriate care for an ageing population. Currently retirement villages cannot be built fast enough to meet demand. As Victoria’s population continues to age, this demand is expected to outstrip supply by more than 30 per cent.\(^1\) Victoria is Australia’s second largest market for retirement villages by dwelling number, with approximately 27.3 per cent of the market being not for profit.\(^2\) Our State houses approximately 23 per cent of Australia’s village residents and has a 5.3 per cent market penetration.\(^3\)

In 2014, it was estimated that 43,107 Victorians currently live in retirement villages and more are moving into villages at an exponential rate due to the vast social, support, lifestyle and care options that they offer.\(^4\) The Productivity Commission attributes this not only to the increasing number of older Australians, but also due to their preference to age in their own homes, which is facilitated by a retirement village environment.\(^5\)

The Property Council believes that there is a need to recognise retirement villages in State planning policies; it is currently silent with regard to this important sector. This has been included in our submissions to both the Plan Melbourne refresh and the original Plan Melbourne documents. We also encourage Government to consider recognising this sector in the State Planning Policy Framework (like aged care.) This sector provides approximately $2.6 billion in savings per annum due to the fact that it is privately funded and receives no Government subsidies. Furthermore, retirement villages provide opportunity for Government to achieve a greater economy of scale for their service delivery for older Victorians.\(^6\)

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\(^1\) Economic Contribution of Australian Retirement Villages 2011, Prepared for the Retirement Villages Association, KPMG.
\(^2\) National overview of the retirement village sector 2014, Prepared for the Property Council of Australia, Grant Thornton.
\(^3\) Ibid.
\(^4\) Ibid.
\(^5\) Retirement Village Association 2011, Prepared for the Retirement Villages Association, KPMG.
\(^6\) National overview of the retirement village sector 2014, Prepared for the Property Council of Australia, Grant Thornton.
4. Enable Physical Activity and participation

Active lifestyle infrastructure regulation (ALR)

The Property Council acknowledges that some past developments in Melbourne, particularly in the outer areas have promoted an over reliance on transport by car, and have not promoted active lifestyles. As highlighted in the Draft Options Book, current planning regulation already incorporates “active design”. The development industry already works in partnership with local councils to deliver better health comes in growth areas. The Property Council is concerned that turning to regulation to improve health outcomes is a limited option, which could simply result in higher development costs passed onto home owners.

Active lifestyle infrastructure provision (ALP)

The Property Council notes that in recent years there has been an increase in active lifestyle provision by both the commercial sector and local councils. For example end of trip facilities are now taking up a greater portion of new office buildings, and are being retrofitted into upgraded facilities. There is further potential for this type of infrastructure to be delivered in areas of high to medium density. The Property Council agrees with Infrastructure Victoria that the challenge with such community assets is the ongoing maintenance and who bears the responsibility. There are also safety issues around public end of trip facilities, and the need to consider access for people with disabilities.

Bicycle and walking path data capture (BWP1)

The Property Council supports increasing data on such issues to better inform allocation of resources.

Integrated shared use community and recreation facilities (RFC)

The Property Council supports integrated shared use of community and recreation facilities. As part of this process, consideration needs to be given towards addressing disadvantage that currently exists in current community and recreation facilities, for example the “grass ceiling” of lack of female changing rooms at community sports ovals.

Bicycle and walking path expansion and improvement (BWP2)

The Property Council supports further expansion of the bicycle and walking path network. It should be noted that a number of issues currently exist around “last mile” transportation into the CBD. This will become increasingly important as competition between road users increases. There is a growing trend towards the use of cycling for small parcel freight movement in inner areas. It is also important to distinguish between commuter cycling and recreational cycling, which create different interactions with pedestrians and motorists.

Active established areas (AEA)

AEAs currently take place to some extent in inner areas, for example with the retrofitting of bicycle lanes. As the Draft Options Book highlights, the responsibility falls on local councils, and a statewide
rollout of this initiative would be extremely costly. The Property Council cautions against mandating a requirement for such a program without the accompanying funding. The Property Council also notes that historically local government turns to property to fund shortfalls in such types of programs which is an unacceptable burden on the industry.
5. Provide Spaces where communities can come together

Community space shared use agreements (CSS1)

As mentioned previously, the Property Council supports greater efficiency in the use of community assets. The most suitable asset class would be school buildings. While this already takes place to a degree, it is important that any shared use of education facilities does not put additional burden on local school communities, and their staff. There are also safety issues associated with multiple users on one site, such as school children interacting with non-school members of the community.

Community and public space utilisation deregulation (CSU)

As mentioned previously, better use of public space should be encouraged, however as Infrastructure Victoria has acknowledged in its Draft Options Book, there are a number of red tape issues, particularly relating to insurance which currently preclude the use of such spaces.

In addition, it would be necessary to ensure that deregulation doesn’t become a revenue raising exercise by local councils. For example, in some local council areas, it currently costs over $100 for a member of the public to hire a barbeque and gazebo at a park for a picnic. It would be unfortunate for both the local community, and the development sector if a raft of fees and charges were associated with such an initiative.

Community infrastructure accessibility (CIM)

As mentioned previously (see RFC) the Property Council supports measures to redress disadvantage in the community. However the Property Council notes there is existing regulation such as the Disability Discrimination Act and the National Construction Code. The Property Council supports harmonised nation-wide regulation on construction matters to promote consistency across jurisdictions, and to reduce compliance costs for companies that operate in multiple jurisdictions. The Property Council does not support state-based regulation in this area.

Community Space refurbishment or rationalisation (CSR)

As mentioned previously, the Property Council would support CSR, providing redundant sites become part of an asset recycling program.

Greenfield development sequences (GFS)

The Property Council does not support GFS. Please refer to our response to this option is in chapter one, and the additional information in the appendix.
6. Improve accessibility for people with mobility challenges

*Community health facility access (SCC)*

The Property Council believes principals of universal access are already considered in the development planning of new communities. As highlighted previously (see CIM), the Property Council notes there are already requirements under both the Disability Discrimination Act and the National Construction Code.

*Community infrastructure accessibility (CIM)*

As mentioned previously (see RFC) the Property Council supports measures to redress disadvantage in the community. However the Property Council notes there is existing regulation such as the Disability Discrimination Act and the National Construction Code. The Property Council supports harmonised nation-wide regulation on construction matters to promote consistency across jurisdictions, and to reduce compliance costs for companies that operate in multiple jurisdictions. The Property Council does not support state-based regulation in this area.
7. Provide better access to housing for the most vulnerable Victorians

Affordable housing sector regulatory amendment (SHS1) and Affordable and social housing targeted development (AHR)

Inclusionary zoning is a process whereby governments, through planning controls, mandate a percentage of dwellings (commonly 10 to 20 per cent) in a new development be sold at below-market rates, to provide affordable housing opportunities for lower income households. It is important to make the distinction between inclusionary zoning on public or private land.

The Property Council believes that government-sponsored development sites on public land is appropriate providing:

- any Inclusionary Zoning requirements are clearly articulated in any master planning or bid documents issued by government for public land;
- they should not and cannot be varied after the completion of any procurement process,
- the Inclusionary Zoning requirements are economic, reasonable and appropriate given the strategic plan and requirements of each site, and
- government explores innovative models such as the transfer of value beyond the precise site being put to market.

This provides clarity and choice for the private sector that allows them to factor these requirements in through any bidding process.

The Property Council strongly opposes Inclusionary Zoning on private land on the grounds that:

- it will effectively devalue sites currently held;
- it will impact the feasibility of projects that may have already commenced;
- sites may not be sold or developed, limiting housing supply and further hampering affordability;
- the costs of providing 'below-market' price dwellings in already active projects will mean that the additional cost is borne by all other purchasers in the development through increased purchase prices, and
- councils that offer floor space incentives for projects that help yield affordable housing (via direct delivery or contributions) are actively suppressing planning controls and limiting development.
Alternative solutions

The Property Council believes that governments should make better use of market-based solutions, including:

- Asset sales and recycling, including their own public, social and affordable housing portfolios;
- Facilitating institutional investment in affordable housing through Residential Real Estate Investment Trust (REIT) models;
- Develop an Australian Low Income Housing Tax Credit (LIHTC) model, based on the US framework; and
- Explore opportunities to expand the West Australian KeyStart model nationally.

We are currently undertaking further work to make a stronger case around Residential REITs, and the LIHTC in particular.

Public high rise housing estate renovation (PHR)

The Property Council does not support greater investment in public high rise housing, providing appropriate cost-benefit analyses are undertaken. The intensification of public housing should be avoided to avoid increasing social dislocation and / or concentrating poverty.

Social housing government role change (SHG), Social housing “Social Rental” model (SHS2), Social housing stock transfer model (SHS3), Social housing tenant transfer within a community (SHT)

The above options relate to different models of governance and ownership for social housing. The Property Council does not have a position on the above options, but notes that a range of options should be explored to address the chronic shortage of public and social housing.

Social housing asset rationalisation and refresh (SHA)

The Property Council supports this option to ensure accommodation is appropriate for those who require it and that limited resources are appropriately managed.

Affordable and social housing development incentives and fund (SAH)

The Property Council does not support inclusionary zoning on private land (refer to section AHR)

Affordable housing community land trusts (AHC), Government owned and management social housing to increase stock (GOM), Housing rental assistance program extension (HRA)

The above options relate to different models of governance, delivery and ownership for social housing. The Property Council does not have a position on the above options, but notes that a range of options should be explored to address the chronic shortage of public and social housing.
Public high rise housing estate regeneration (PHG)

The Property Council supports this option to ensure accommodation is appropriate for those who require it and that limited resources are appropriately managed.

Social housing flexible use (SHF)

The Property Council believes the design industry can adequately address this need without introducing additional regulation.

Social housing infrastructure investment framework (SCP)

The Property Council supports a long term strategy for social housing. A number of investment options should be explored, such as those listed in section (AHR).

Social housing private provision to increase stock (SHP1)

This option requires greater investigation. The Property Council provides preliminary support to this option, subject to appropriate funding and governance being implemented.
9. Provide access to high quality education infrastructure to support lifelong learning

*Early childhood education corporate office facilities (ECE3)*

There are currently a number of mechanisms to facilitate the provision of early childhood services. Developers are increasingly incorporating child case and early childhood services into new developments as demand requires, or to offer a point of difference to anchor tenants. The Property Council prefers a market-led approach to the provision of these services, rather than turning to tax concessions which are complex and often difficult to administer.

*School infrastructure funding certainty (SIF)*

The Property Council concurs that maintenance and infrastructure funding for schools has been neglected for decades. School maintenance expenditure should not be subjected to short term budget cycles. The challenge of course, will be to allocate adequate funding from the existing pool, or to find new ways of funding or financing this program.

*School shortages (SSS)*

The Property Council supports fast tracking new schools in areas of shortage. The shortage of schools in outer areas and some inner areas of Melbourne is well documented. The rollout of new schools in growth areas is currently delayed by red tape and bureaucratic inertia. Members of the Property Council have repeatedly expressed frustration at the lack of education options in the growth areas, and the delay in mooted or promised schools. This issue is the domain of the Department of Education, and while the Property Council would welcome any influence exerted by Infrastructure Victoria in this matter, we do not believe it is core function of IV.

*Greenfield development sequencing (GFS)*

The Property Council does not support GFS. Please refer to our response to this option is in chapter one, and the additional information in the appendix.
10. Meet growing demand for access to economic activity in central Melbourne

Car Parking management (CPM)

The Property Council considers the congestion levy a blunt, poorly targeted and discriminatory method of mitigating the costs associated with traffic congestion in the Melbourne CBD. If the aim of policy is to reduce the attractiveness of commuting by car to the CBD, then all car users should be the focus of policy, not parking spaces for some subset of car users.

A well-considered policy to reduce congestion in the CBD would target congestion at its source and vary according to the amount of congestion caused. Congestion is higher at peak times, location specific, travel route specific and vehicle specific. When properly applied, road pricing aims to internalise negative externalities such as congestion through comprehensively applied but otherwise targeted road user charges that vary in proportion to the costs imposed on others. The intention is that individuals are faced with prices that signal the social costs of their transport use, and can make informed decisions regarding travel mode, timing and route. For example, depending on their own preferences and budget constraints, individuals may reduce travel at peak times (when prices are higher), car pool, use public transport, walk or cycle.

In contrast, the Government’s congestion levy meets none of these policy criteria, in that it does not vary in proportion to the amount of congestion caused and it is based on the very weak link between congestion and some car park places.

The selective nature of the charge means it does not apply to others who create congestion, pollution and greenhouse gases. For example, the levy:

- Does not apply to vehicles travelling through the city but not parking.
- Does not apply to short stay car park places.
- Does not influence time of travel, as the levy is paid at a flat annual rate.

To the extent the levy encourages an expansion of short stay places (which are currently exempt), this actually increases congestion and pollution throughout the day by increasing the turnover of cars (with a number of cars using the same parking spot).

With electronic road pricing, charges can be directly targeted to alleviate congestion by adjusting charges according to time, location and traffic levels. A selective tax like the congestion levy is a poorly targeted and ineffective policy instrument, especially compared to a properly designed road pricing regime.

Transport network price regime (TNP)

Congestion is already a major issue for the metropolitan road network. It is possible that transport network pricing in some capacity will need to be introduced as the population increases. A TNP should address the issues mentioned in the previous section (CPM). Further, any consideration of a TNP must include a thorough analysis of the costs demands of the freight and logistics industry. Forcing freight movement to a particular time of day, or at a particular price point will affect efficiencies in the sector,
and may harm the competitiveness of the Victorian industry. This would also have flow on effect on the industrial property market.

*Employment outside central city incentivisation (EOC)*

The Property Council does not support this proposal. We believe that resources should be focused on planning and infrastructure provision to create attractive employment precincts rather than financial incentives. As history shows, financial incentives do not provide a long term solution. Instead Government needs to provide the certainty and amenity that employers and employees want in defined areas.

*New and expanded assets (ATM, BHT, BRG, CCT, CLR, CRE, CTS, GWR, GFR, GRE, GAT, HSR, MMS, MRE1, RRE1, RRE2, TSC, WRE1, WRE2)*

While we congratulate the Government on the current ambitious infrastructure agenda, Victoria still has a long way to go before our infrastructure deficit is addressed. The Property Council supports the provision of any infrastructure which is accompanied by a cost benefit analysis and that can help us close this gap.

*Concepts requiring further development (ACT, ADA, AAB, BRF, BDL, DBI, DCR, GPR, CRR1, MBN, MLC, MPR, MII, HSP2, RRS, SYM)*

With the exception of MII, MLC and SYM referred to in previous sections, the Property Council does not have a position on the merits of the above options. All options in the paper should be subject to appropriate cost-benefit analyses.
11. Improve access to middle and outer metropolitan major employment centres

Residential and commercial property densification (RCP)

As mentioned previously (see UDC), a departmental review of residential zones is under way. It is the Property Council’s view that population strategy, and the densities to support population growth are the domain of the Government’s planning department and related statutory authorities and therefore beyond Infrastructure Victoria’s remit.

The Property Council contributes to policies relating to residential and commercial property densification. A recent study commissioned by the Property Council highlighted the community sensitivities associated with increasing housing density in inner to middle Melbourne. The Property Council will continue to work collaboratively with Government to maintain livability and address growing population needs.

Strategic transit-oriented development corridors (STO)

Per the previous option, the Property Council acknowledged the strategic planning undertaken by the Government in this area, and believes this issue to be outside the remit of Infrastructure Victoria.

Growth area train station upgrade and provision (GAT)

As mentioned previously the Property Council supports expansion in the metropolitan rail network to support population growth. However without a full integrated public transport strategy, increasing capacity in growth areas when there is no additional capacity within central Melbourne is futile. Significant, metropolitan-wide investment in public transport is required, and the Property Council considers this as a matter of urgency.

Melbourne Airport heavy rail line (MAH)

A rail link to Melbourne airport has been on and off government agendas for decades. The need for an airport link is well documented. It is also important to consider that the airport precinct is the second largest employment precinct in Melbourne and the benefits of a rail link would extend beyond airport commuters. The Property Council sees this project to be of strategic importance.

Outer metropolitan ring road (OMR)

While this option has merits, the Property Council does not consider it to be a priority project due to the costs involved, and the need for other projects.

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7 A summary of the Marketing Density report is available from the Property Council upon request.
Train station car parking improvements (TSC)

While increased car parking at train station is likely to be popular with a portion of commuters, it is unlikely that supply can keep up with demand. Currently station car parks are owned by VicTrack, and the use of car parks exclusively for public transport users is not enforced. As increased developments around train stations takes place, so too does the use of adjacent car parks by residents. The question of who would bear the cost for development and maintenance of car parks, particularly multi-level car parks is unclear in the Draft Options Book. The Property Council believes this is a low priority and funding would be better directed to multimodal interchange improvements (MII).

Active established areas (AEA)

As mentioned previously AEs currently take place to some extent in inner areas, for example with the retrofitting of bicycle lanes. As the Draft Options Book highlights, the responsibility falls on local councils, and a statewide rollout of this initiative would be extremely costly. The Property Council cautions against mandating a requirement for such a program without the accompanying funding. The Property Council also notes that historically local government turns to property to fund shortfalls in such types of programs which is an unacceptable burden on the industry.

Metropolitan level crossing removal completion (MLC)

The Property Council supports the current level crossing removal program. The Property Council supports the removal of remaining metropolitan level crossings. Strategic development of sites around level crossings can provide additional development opportunities and uplift of surrounding areas. The Property Council notes that a number of the current level crossing removal projects have been a missed opportunity for greater enhancement the nearby areas.

Multimodal interchange improvements (MII)

The Property Council supports better interchange facilities around public transport hubs.
12. Improve access of jobs and services for people in regional and rural areas

Sub-regional infrastructure planning (SIP)

As mentioned previously, Planning on a sub-regional level was one of the high level principles in the original Plan Melbourne document. The Property Council supports the proposition of infrastructure planning on a sub-regional level as we believe that it provides greater economies of scale and better solutions. We are however concerned with how the funding for this model may work. Currently development contributions stop at the municipality boundary. Sub-regional planning and its accompanying infrastructure must go hand in hand.

Regional rail gauge standardization (RRG)

The Property Council supports this project, subject to the appropriate cost-benefit analyses.
13. Improve the efficiency of freight supply chains

The role of freight and logistics in Victorian is often overlooked and undervalued in policy formation. The Property Council believes that the effective management of freight supply chains, and the industries that support them are a critical part of the state’s economic success. Victoria’s industrial property’s competitive advantage compared with other jurisdictions is in large part due to the Port of Melbourne, relatively cheaper industrial land supply and Melbourne’s transport networks.

There is growing concern in the industrial property and the freight and logistics sectors that Victoria is at risk of losing this competitive edge, along with the Port of Melbourne’s status as Australia’s largest port. The lack of strategic planning and investment in freight and logistics infrastructure in the past decade is starting to show. Poor connectivity, lack of intermodal freight options and mooted projects failing to materialise now place Victoria at risk. There has been a trend towards some major companies relocating their operations to New South Wales, with Visy being one high profile example. The superior facilities at the Port of Sydney are now eroding Victoria’s position.

There appears to be a policy vacuum on strategically managing freight and logistics in Victoria. For example, although there is a freight and logistics plan, it is rarely, if ever referenced in major planning policy such as Plan Melbourne. The recent plans for the Western Distributor through the mooted E-gate urban renewal area and part of the ports precinct is an example where one project could cause unintended consequences for others. There appears to be a lack of coordination in such strategic matters.

Recent activity in the freight and logistics area provide for a renewed opportunity to reinvest in this sector. For example, the lease of the Port of Melbourne should not be viewed as the conclusion of an asset sale, rather the catalyst to reinvigorate Victoria’s freight and logistics industry. The location of a second port will also be critical to Victoria’s freight future.

Many of the options below are important. There are a number which the Property Council consider to be priority projects. The Options Paper has listed the Western Interstate Freight Terminal (WIFT) as option that needs further consideration. It is the Property Council’s belief that the WIFT is a critical element in Melbourne’s freight and logistics network, and needs to be developed as a matter of urgency. The WIFT will be discussed below (see WIF).

Transport network price regime (TNP)

Congestion is already a major issue for the metropolitan road network. It is possible that transport network pricing in some capacity will need to be introduced as the population increases. A TNP should address the issues mentioned in the previous section (CPM). Further, any consideration of a TNP must include a thorough analysis of the costs demands of the freight and logistics industry. Forcing freight movement to a particular time of day, or at a particular price point will affect efficiencies in the sector, and may harm the competitiveness of the Victorian industry. This would also have flow on effect on the industrial property market.
**Freight precinct land use planning (FPL)**

The Property Council agrees that freight precinct land use planning is important to ensure continued growth in this sector. There are a number of existing mechanisms such as Precinct Structure Plans, which from an industrial property perspective, have had limited success. Industrial developers express frustration that the sites are not suitable for large warehousing and distribution centres, and residential developers express frustration as employment lands adjacent to residential developments lie fallow. Any future policy on freight precincts must not exacerbate an already complex and costly development process.

In addition, some government policies on industrial land supply do not match the needs of from the industry. For example the outer south east near Pakenham is mooted as one option for more industrial land supply. However for some industries who operate interstate, this part of outer Melbourne is not suitable due to travel times.

The Industrial property sector has expressed frustration at the lack of progress on securing a site for the WIFT. It is the Property Council’s view that the WIFT is integral to unlocking more industrial property suitable for freight and logistics (see WIF). The availability of large tracts ensures that the land cost can be kept down. This is an important competitive advantage compared with other interstate markets.

**Eastern freeway to Citylink connection (EWE)**

The Property Council supports this project, subject to the appropriate cost-benefit analyses.

**Citylink to Western Ring Road connection (EWW)**

The Property Council supports this project, subject to the appropriate cost-benefit analyses.

**HPV network completion (HPF)**

The Property Council supports continued investment in the HPF, providing projects are undertaken with a holistic view of freight transport requirements. For example, certain roads may not need upgrading if the intermodal freight project was successfully implemented.

**Melbourne to Brisbane freight rail line (MBF)**

The Property Council supports this project, subject to the appropriate cost-benefit analyses and interstate cooperation.

**North-East link (NEL)**

The Property Council supports this project, subject to the appropriate cost-benefit analyses.

**Outer metropolitan ring road (OMR)**

While this option has merits, the Property Council does not consider it to be a priority project due to the costs involved, and the need for other projects.
**Port of Melbourne container terminal expansion (PMC)**

The Property Council agrees that there are numerous options for expanding capacity at the Port of Melbourne. This would defer the need for a second port, and any compensation payable to the new lessees of the Port. The Property Council views this option as one of many opportunities present to create greater efficiencies and growth. As mentioned previously, there has been a lack of strategic planning in this sector. The Property Council would welcome additional investment in this area and has urged the Government to include additional investment in the Port as part of the lease negotiations.

**Port of Melbourne to metropolitan container shuttle (PMM)**

The Property Council supports the development of an intermodal system to transport metropolitan freight by rail to hubs. Victoria is falling behind interstate competitors in this area. We see this project as critical to maximising efficiencies at the Port of Melbourne.

This project has the potential to create greater efficiencies in the supply chain, reduce congestion in and around the Port and deliver environmental benefits from reduced air and noise pollution. The success of an intermodal facility is dependent on a regulatory and pricing structure that encourages the use of rail to alleviate traffic congestion. This has successfully been implemented in New South Wales and other ports, whereby rail is the preferred mode of transport and is priced accordingly.

To facilitate the adoption of rail, the Property Council recommends a sequenced rollout of the intermodal system, commencing with an inland port to the west of the Port, then to the North and finally to the south east of Melbourne. In addition, the closure of Coode Road within the Swanson Dock precinct is necessary to ensure that the rail terminal can be directly serviced from the container terminals. It should also be noted that there is both state and federal funds allocated for this project. It is a project that will deliver widespread benefits for minimal cost.

**Regional highway upgrades (RHU)**

The Property Council supports this project, subject to the appropriate cost-benefit analyses.

**Webb dock freight rail access (WDF)**

The Property Council supports greater investment in Webb Dock to increase the ports capacity. A future capacity plan is required to expand the terminal(s) to the north and to incorporate the latent capacity at Webb Dock West. The early preparation of this precinct for additional capacity is crucial and considering rail connectivity or another means of mass movement of containers from the precinct will ensure the precinct can operate effectively and efficiently. For example, it may be more cost efficient to provide a pipeline with electric automated bogies to transfer containers to and from Webb Dock to the standard rail gauge line at the Newport railyards as well as to the widened Westgate freeway. There are a number of innovations that should be explored, and we encourage the Government to consult with industry to find the best solution.
Regional rail gauge standardisation (RRG)

The Property Council supports this project, subject to the appropriate cost-benefit analyses.

Western intermodal freight terminal (WIF)

The Property Council is concerned at the lack of progress in developing the WIFT. This facility is critical to ease bottlenecks at the Port and to drive efficiency in the freight sector including connecting Victoria to other key interstate markets. The WIFT should include both domestic and overseas freight, and in time, surpass the need to retain Dynon.

The Property Council believes the Government must commit to a location which will not only provide an opportunity for bidders to consider and optimise the supply chain’s benefits, but will also provide certainty to the Truganina employment lands and encourage the development of employment precincts. It is important a decision is reached on the site before other land uses encroach on the preferred area. The Property Council strongly recommends Infrastructure Victoria prioritise the WIFT as part of Victoria’s overall freight strategy.
15. Manage pressures on landfill and waste recovery facilities

Landfill waste levy increase (LLI)

A recent report of the Government independent review of the Environmental Protection Authority\(^8\) observed that broadly based levies on waste are failing in their primarily regulatory objective of reducing disposal to landfill. The widespread incidence of illegal dumping of wastes, to avoid landfill costs, is undermining both the regulatory and the revenue objectives of landfill levies.

Any change in the landfill levy needs to minimise perverse incentives, particularly for waste streams without an alternative to landfill, such as asbestos and some types of contaminated soil. Previously, increasing the rate of the landfill levy has led to undesired outcomes to paying the levy, such as poor waste management practices of stockpiling, illegal dumping and blending of contaminated waste with clean fill.

The Property Council supports the recommendation in the MAC report to redesign Victoria’s landfill levies – both the Municipal and Industrial Landfill levy and the Prescribed Industrial Waste Levy to ensure they create a real financial incentive for households and businesses to recycle waste whenever practicable. The report recommends reviewing and updating the landfill levy collection provisions, as part of the overhaul of the Environmental Protection Act. Such reform would consider a full set of instruments to address problems such as stockpiling, dumping and rorting.

18. Transition to lower carbon energy supply and use

Energy demand efficiency schemes (EDM1)

The Property Council supports incentive mechanisms to drive increased energy efficiency in the property sector. We believe that active engagement of large energy users should be a high priority as the Victorian Government looks to manage energy demand through policy programs. Earlier this year, research by ClimateWorks for the Australian Sustainable Built Environment Council\(^9\) showed that in addition to $20 billion in energy savings, strong actions in the built environment can deliver one quarter of the national emissions target and over half of the national energy productivity target, by 2030.

The Property Council believes that energy demand efficiency schemes should include consideration of the introduction of incentives for retrofitting existing applicants, for new buildings and for the purchase of high efficiency equipment and appliances. Initiatives to overcome non-price barriers (such as split incentives, information asymmetries and access to capital) are in strongly supported, as are initiatives to overcome market barriers in lower grade, B, C and D buildings. Priority should be placed on:

- Incentivising high performing buildings through the introduction of state tax concessions and differential council rates in partnership with local government.
- Planning incentives such as density bonuses and green door policies, which could support accelerated deployment of high performing new buildings by targeting one of the highest priorities for new building developers – the cost, time invested and uncertainties of planning processes.

Further to the development of energy efficiency programs, the Property Council also supports the harmonisation and integration of existing energy efficiency obligation schemes across state jurisdictions as a way to reduce transaction and administrative costs.

Energy Demand tariff reform (EDM2)

The Property Council supports electricity tariff structures that provide an appropriate incentive for distributed energy and energy efficiency, including through the current shift to ‘cost reflective pricing’.

Energy Efficient Development (EED)

The policy framework for regulating energy efficiency in the commercial and residential sector (new and existing) in Victoria is a complex area. Any review of the existing regulations for buildings must engage closely with industry to deliver sustainable outcomes for stakeholders as well as the built product. Where regulation is proposed to improve the energy efficiency of new commercial and residential buildings, the Property Council supports lifting the minimum regulations in the National Construction Code (NCC). No increase to the minimum energy performance requirements under the NCC have been

introduced since 2010, and the gap between industry best practice and the current minimum standards for commercial and residential buildings is large.

Mandatory minimum standards for buildings, equipment and appliances can be lifted and should follow a steadily rising future trajectory that aligns with Australia’s long term goal of net-zero emissions. We consider the consultation period leading to the next NCC publication in 2019 will allow industry engagement on the best ways to lift minimum energy performance standards. Any state based energy efficiency regulations relating to the construction of commercial and residential buildings should be pursued through a variation to the NCC, justified through a positive cost benefit analysis, and only adopted where there is a proven difference for such variation. Inconsistency in building regulations around Australia has a significant cost impost, and the Property Council is concerned that the competitiveness and capacity of the industry to deliver compliant built stock is being undermined by regulations that fragment the Australian market.

**Active Established area (AEA)**

As mentioned previously, AEAs currently take place to some extent in inner areas, for example with the retrofitting of bicycle lanes. As the Draft Options Book highlights, the responsibility falls on local councils, and a statewide rollout of this initiative would be extremely costly. The Property Council cautions against mandating a requirement for such a program without the accompanying funding. The Property Council also notes that historically local government turns to property to fund shortfalls in such types of programs which is an unacceptable burden on the industry.

**19. Improve the resilience of critical infrastructure**

**Infrastructure resilience assessment test (IRA)**

The Property Council believes the National Construction Code adequately covers issues relating to resilience. The Property Council supports nationwide harmony in building regulation matters. State based regulation creates unnecessary cost burdens on the industry, which flows through to end users. For essential services such as utilities, the Property Council believes the market undertakes reasonable due diligence and risk assessments.

**Integrated transport control centre (ITC)**

Given the disparate entities that control public transport and road transport, this project appears complex and of low priority.

**Key movement corridor incident management (CRR1)**

The Property Council supports the use of new and emerging technologies to better effectively management key transport corridors, providing a cost-benefit analysis demonstrates significant benefits.

**New port (NCP)**

The Property Council supports the development of a second port in the Bay West region. The location
of a second port needs to best serve the flow of Victoria’s imports and exports. A second port at Hastings would create significant supply chain inefficiencies. Until a second port is required, there are numerous possibilities for increasing capacity at the Port of Melbourne. For example, the relocation of cars from Webb Dock should be considered as a high priority project, and one which can fund the new port and increase capacity of Webb Dock.

Public Transport network resilience (PTN)

The Property Council is concerned at the current lack of resilience of the public transport network, particularly the passenger rail network. This is due to failures by successive governments to adequately maintain the ageing network. The public transport network will not be able to meet future population demands if the fundamentals of maintenance, and the resilience it brings, is not world class. This is also important in the context of climate change, where more extreme weather events affect the resilience of the system to run properly. The Property Council supports significant investment in this project.
Funding and Financing

Property Council members are investors in cities and have an inherent interest in seeing them prosper. Our members understand the need to improve cities’ productivity, sustainability and livability. Infrastructure provision is the cornerstone of these improvements.

In recent times there has been much discussion by governments and the business community on alternative methods of funding and financing infrastructure. Many buzzwords abound, and none more than the term “value capture”. However value capture mechanisms range in definition and application, and are not a panacea to all infrastructure funding dilemmas.

Before addressing funding and financing options, it is important to understand the current context of existing state taxes, levies, contributions and fees. This is particularly important for the Victorian property industry, which currently contributes in excess of 50 per cent of state revenue (primarily through transfer duties and land tax) and myriad of developer charges. While the composition of state funding is out of scope of Infrastructure Victoria’s mandate, recommendations relating to alternative funding and financing arrangements must be considered within the context of the current state taxation system.

It is also important to make the distinction between funding substantial, transformative infrastructure projects and “fine grain urban infrastructure”. The Property Council believes fine grain infrastructure is to a large extent already provided for through the current regime of infrastructure charges across the country. The success of these regimes is variable. In Victoria, there are current projects under way to address some of the inefficiencies and red tape of the planning and approvals process such as the $25 million investment announced in the recent state budget. There is also a review of development contributions plans/infrastructure contributions plans underway. The Property Council would suggest that there are many efficiencies that should be gained (see point 8 for an example) before seeing the introduction of more charges to address infrastructure needs.

While the Property Council supports consideration of alternative or innovative financing options, it is important to acknowledge that these mechanisms will only ever provide a portion of the cost of infrastructure, and not entirely absolve governments of their responsibilities in infrastructure provision. In addition, local and state governments must appropriately manage charging and delivery. There must be a clear nexus between the collection of infrastructure funding and the timely, transparent delivery of infrastructure.

Options to raise revenue

1. User charges
   It is important to understand the purpose behind the application of user charges: be it cost recovery, managing consumer behavior or a combination of both. This purpose affects the appropriateness in some instances.

   The Property Council supports user charges, but acknowledges the limited scope of application. For example, the suburban rail network does not fully recover costs through its ticketing system.
There may be opportunities to increase user charges on this mode of transport, with the appropriate concessions in place.

Further, any consideration of a user charges on the road network must include a thorough analysis of the costs demands of the freight and logistics industry (see TNP).

There are also challenges with potential political fallout of increasing user charges, particularly when a population is unaccustomed to paying for a service that was formerly “free of charge”. An example of this scenario is applying tolls to parts of the existing road network.

Overall, user charges can be an equitable way of recovering costs, but have limited application.

2. Beneficiary charges
   a. Land value uplift
      Land value uplift or “value capture” has become a catch all phrase for myriad forms of property taxation and infrastructure charges. While some infrastructure provision can provide extra value to individual land and businesses, value capture is problematic on a number of fronts:
      - It rarely accounts for how the existing tax system already contributes the capacity of government to fund infrastructure
      - It does not account for the heavy burden already carried by property across the state’s tax base
      - It does not consider that existing taxes such as council rates, land tax and transfer duty already capture uplift, both in land values and from economic activity
      - It may not promote the most efficient and effective land use
      - It does not account for the substantial benefit derived through the existing tax base from private investment.
      - The value “captured” is often assumed rather than real uplift as it accrues, and is separated from the actual cost of infrastructure as well as its delivery.

      There needs to be caution applied to the debate about the use of value capture and far better policy objectives established beyond creation of a new revenue stream. Similarly, there needs to be a clear understanding and acknowledgement by all levels of government that any value capture mechanisms will only be appropriate in certain circumstances, and that these approaches will, and should not, fully fund the costs of infrastructure.10
   b. Betterment Charges
      Betterment charges are also sometimes referred to under the “Value Capture” umbrella and often are problematic for the same reasons as those mentioned in the previous point. Charges in a defined catchment are regularly arbitrary in the rate, breadth of application and biased against commercial property. Furthermore they can ignore the

reality of existing land-based taxes or the ability of businesses to bear further cost increases.

c. Developer contributions
Various versions of developer contributions already exist across Victoria, with new residential development the subject of significant, and ever-increasing charges. In greenfield sites, they directly add to the cost of housing delivery, compromising affordability. In brownfield sites, they affect project viability and act as a disincentive to investment. In both cases planning delays and the ability for councils to add additional requirements further compromises the timely delivery of development, and the supporting infrastructure.
Development contributions should not be expected to fully fund required infrastructure. Reliance on developer contributions to fund infrastructure is inefficient and unsustainable. Capital investment for infrastructure is generally needed at a far earlier point than the revenue from development would allow for, and the requirements are subject to change seemingly at the whim of the multiple agencies, authorities and councils with which developers are required to negotiate.

3. Property development
Increasingly governments are moving away from developing property in their own right, as it is widely recognised the private sector has the capacity to develop more efficiently. The Victorian government does have two entities which develop property development; Places Victoria and Major Projects Victoria. The Property Council recommends that these two entities be merged to create greater efficiencies.

4. Asset sales
The Property Council supports the appropriate use of asset sales and capital recycling, and notes there is further potential to efficiently utilise land surplus government requirements. In addition to providing much needed revenue for vital infrastructure investment, asset sales allow the private sector to convert under-utilised assets into long term sources of economic activity for government requirements. On a large scale, the Property Council supports the current lease of the Port of Melbourne to fund the level crossing removal projects. Smaller scale projects such as redeveloping former school sites, and recycling local council assets such as at grade car parks, also have merit.\(^\text{11}\)

The Property Council recommends that the State Government initiate an asset recycling audit of all State Government owned public building and vacant land holdings which lack long term

\(^{11}\) The Property Council has released two reports which report highlight potential federal, state and local government sites that could be sold generate revenue for vital infrastructure investment. 20 Projects: Victoria’s Best Investment Sites identifies 20 federal, state and local government property assets which can immediately be brought to market. The report identifies sites ranging from smaller holdings around stations like Essendon, Ringwood and Frankston, to larger precincts such as Maribyrnong Defence Site. Hidden in Plain Site identifies 101 local government assets across ten inner and middle ring municipalities and presents the top 15 sites which have been shortlisted by size, value and capability for their potential to be redeveloped or repurposed.
strategic value. We also advocate for a central agency tasked with managing the recycling of all assets identified in the above audit.

5. Donations and bequests
The Property Council believes there is limited scope for donations and bequests to fund major infrastructure and as such, are not a viable funding option.

6. General Commonwealth revenue
Although the composition of taxation arrangements is outside the scope of Infrastructure Victoria, it is important to note that nation-wide there is an insatiable appetite for infrastructure funding, and increasing competition between States for Commonwealth funds. The Property Council supports the introduction of a National Competition Policy-style model to encourage States and Territories to establish clear housing supply pipelines, reform to planning systems and review existing inefficient taxes and charges.

7. State Government Revenue
As mentioned previously, the property industry is the largest contributor to State taxes and charges, paying 54.7 per cent of Victoria’s taxes, local government rates, fees and charges. The Victorian Government’s reliance on property taxes, particularly land transfer duty, is of concern due to the cyclical nature of property transactions. Further, the Property Council asserts that the industry contributes more than its share to fund infrastructure under the current State taxation system. Increasing taxes can also seriously undermine the State’s business competitiveness. The Property Council encourages the Victorian Government to look to other funding and finances sources such as asset recycling and public/government debt to fund major infrastructure, rather than repeatedly turning to taxation as the solution.

8. General local government revenue
Local government has limited capacity to increase funding. Recent research by the Property Council suggests that local governments could better manage their balance sheet through efficient use of property assets. The Property Council supports rate capping, as a recent report showed that prior to rate capping, local council consistently increased rates well above CPI levels. Further, there is currently much inefficiency associated with replicated services in each local government area. For example, it is not necessary for each council to have different parking inspectors doing the same job, in a different uniform, reporting to a different manager. In addition, councils are now using multiple mobile phone applications for users to pay for parking. This is not good business practice. By taking advantage of synergies between councils, costs could significantly be reduced.

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Borrowing instruments to finance infrastructure

1. State government issued bonds
   The Property Council supports increasing use of debt to finance infrastructure. At a time of record low interest rates, there is scope to use debt to finance infrastructure, particularly for major projects that will benefit Victorians for generations to come. While we support the increased use of debt, it is imperative the State maintains its AAA credit rating.

2. Social impact bonds
   Social impact bonds may have a role to play to deliver certain social outcomes, however in the present low interest rate market, traditional debt vehicles may be more efficient.

3. Borrowing by private financiers
   The Property Council supports PPP-style financing to capitalise major infrastructure projects. There are several successful examples in Victoria, and this option should continue to be part of the financing mix. It should be noted that for some parts of the construction and financing market, the costs and risks of bidding are at times prohibitive. This limits the depth of participants in the local PPP market.

4. Tax increment financing (TIF)
   TIF is a method of financing infrastructure that is commonly used in the US and UK. Its benefits include:
   - A more transparent approach to infrastructure
   - A sustained commitment to infrastructure provision which is removed from the vagaries of the election cycle
   - The provision of infrastructure is appropriate timed
   - Governments have a stake in making integrated decisions around infrastructure and land use
   - Avoids the trap of other forms of value capture by using existing taxes and tax rates — and only capturing value as it truly accrues.
   The Property Council has previously commissioned research on TIF\(^\text{14}\), and urges the Government to explore how TIF could work in the Victorian context.

5. Concessional loans from the commonwealth government
   The Property Council supports the use of debt as a financing vehicle (refer to point 1)

6. Local government borrowing
   The Property Council agrees with Infrastructure Victoria that this option doesn’t need expanding.

7. Tailor finance for specific investor groups
   The Property Council agrees that there is not a strong case to pursue this option over the others listed above.

UK City Deals

The Property Council would like to highlight the UK City Deals as an alternative model to help increase economic activity, fund infrastructure and boost development certainty in a number of cities.

\(^\text{14}\) New Thinking on Infrastructure Funding is available at http://www.propertycouncil.com.au/Web/Content/Submissions/National/2015/New_thinking_on_infrastructure_funding.aspx?WebsiteKey=148a29fb-5ee5-48af-954b-a02c118dc5fd
A City Deal is an incentive scheme which directs infrastructure funding to projects that boost productivity, employment and economic growth. The City Deal contract sets targets for the economic performance of a region using measures including Gross Value Added (a local GDP), employment and productivity growth.

In Australia, it would allow a contract to be established with the federal, relevant state and local governments to set a budget for infrastructure delivery. State and local funds could pool investment in agreed priority infrastructure and matched by the national authority.

Benefits of a City Deals approach include:

- A more rigorous approach to the prioritisation of infrastructure investment based on the capacity of infrastructure to deliver productivity and jobs growth
- An infrastructure plan that depoliticizes the provision of infrastructure
- Creation of long term baseline funding for infrastructure
- A structure that allows for the removal or reform of inefficient taxes, further contributing to growth
- Encouragement of innovative capital formation partnerships between government and private sector
- Ensures stakeholders at all levels are accountable for delivery against agreed benchmarks.

Appendix 1.

Macro sequencing of PSP creation.

While we strongly endorse an orderly PSP program that ensures plenty of well-located, comprehensively planned PSP land supply, we will not support any move to slow or constrain the current PSP program. There are many reasons why an expansive PSP program is critical to both the industry and the Government. Only once a PSP is prepared does the Council, service authorities and the industry have the necessary certainty to plan for future investment in infrastructure and new land estates. It may take a number of years once a PSP is approved for the land to become available and additional time for subsequent estates and development fronts to open up within that PSP area. However, completing the PSP planning is fundamental to the development and service delivery planning process.

We believe an expansive PSP program provides the foundation for optimum conditions for a competitive land market, especially in a hot market or market sales spike. In a market upturn, a sound PSP program allows new estates or more land and fronts to be brought on the address demand in a way that negates price growth. Historically, where land release in Melbourne has been artificially constrained – it has simply led to increased land prices – plain and simple.

Typically, Governments do not have a comprehensive understanding of the complexities of greenfield land markets. Governments need to be very cautious when looking at introducing new regulation and policy. It would be best if Government signals a direction it wishes to head, and then consults heavily with stakeholders on the barriers to getting there and to build its knowledge base around that issue before it looks at introducing further regulation.

Rather than constrain the PSP program, Government should work with industry to examine more carefully options to work towards models that can address earlier and more certain infrastructure and service provision.

Micro-sequencing of land developments within a PSP or Estate.

All Things Considered flags a desire for heavy handed and highly regulated sequencing of development, at a micro or ‘estate’ level. Such policies as written would simply stop most land estates in their tracks and reflect a significant lack of understanding of how contemporary masterplanned communities are delivered. Many PSP plans for example reflect the location of existing services in abutting communities and plan for new services to be located away from the initial development front. Catchments for new services take time to build, otherwise if services are provided early, a greater recurrent funding subsidy is required to allow those services to operate. Service delivery is complex and many models exist.

It must also be noted that the development front may take several years to reach the proposed location of the planned services, before the land can be made available and the services provided. Councils already have the ability to impose conditions such as those proposed, as appropriate and these can be appealed to VCAT where they are unreasonable, vague or not justified. Generally, each estate has a different service provision context. Councils have the local knowledge and close working relationships with the developers and understand what is practical and achievable.
Instead of capping or sequencing development, we strongly encourage Government to look at and increase its funding in the growth areas. We will not support a situation where industry is disincentivised or prevented from providing housing in the growth areas when there is clearly huge demand for it to be built. Melbourne’s growth areas provide an opportunity to provide some of the most affordable housing in Melbourne. Consequently, slowing supply through Government policy would represent a lost opportunity.

If Councils are given the opportunity to cap development in pockets, it will simply stop development in its tracks in some estates. This has a ‘knock on’ effect as, in order for infrastructure to be delivered, development needs to continuously flow so that there is a steady flow of funds to the Council from levies to deliver works. Further, the onus will be placed on industry to borrow money to fund early delivery. This will add to their responsibilities and create further costs which will inevitably be passed onto buyers. Additionally, the wording indicates that there is an inherent risk that facilities will be provided so early that they don’t yet have a catchment of users. While we recognise that facility provision is fundamental to growth area communities, Council also requires the ongoing funds to operate facilities with staffing and other resourcing. It remains unclear whether this fiscal and resource reality has been thought through.

Councils will also require additional resourcing to aide them in properly planning for infrastructure delivery to support development. While some Councils will be able to do this, many will struggle. Consequently, we would like to know what financial support the Government is willing to offer Councils if they intend to implement this proposal.

While we concede that infrastructure planning can present challenges in the growth areas, we believe with increased funding, it could be remedied. Growth area developments are gradually getting denser and infrastructure delivery is being better planned and funded.

Therefore, we do not support any further intervention by Government, in particular, in relation to the capping and sequencing of development.