Moving Melbourne

A TRANSPORT FUNDING AND FINANCING DISCUSSION PAPER
ABOUT THE COMMITTEE FOR MELBOURNE

The Committee for Melbourne is an apolitical, not-for-profit member network that unites a cross-section of Melbourne’s leaders and organisations to work together and enhance Melbourne’s economic, social and environmental future.

The Committee aims to ensure Melbourne’s challenges and opportunities are tackled and grasped in ways that keep our city vital, inclusive, progressive and sustainable long-term.
FOREWORD

Moving Melbourne is a discussion paper that examines alternative funding and financing options that could be used to advance Melbourne’s future transport needs. This work is a culmination of a 12 month long series of workshops between the Committee’s Grade Separation Taskforce and its Infrastructure Funding and Financing Taskforce. The Committee would like to thank all members, in particular those listed, who have generously contributed their time, knowledge and expertise, to help drive positive discussion on Victoria’s long-term infrastructure investment strategies.

CONTENTS

INTRODUCTION 4
FOCUSBING ON TRANSPORT INVESTMENT – THE NEED FOR INNOVATION 6
Funding and financing 6
Government funding 7
Private financing 7
WHY CAPTURE VALUE? 10
ALTERNATIVE FUNDING AND FINANCING MECHANISMS 12
Benefitted area levy 12
Potential Application to Victoria 12
Broad-based transport improvement levy 13
Potential Application to Victoria 13
Incremental rates growth 13
Potential Application to Victoria 14
Paid parking levy 14
Potential Application to Victoria 14
Development charges and development rights 14
Potential Application to Victoria 15
Road tolling 15
Potential Application to Victoria 15
User infrastructure levy 16
Potential Application to Victoria 16
Congestion charge 16
Potential Application to Victoria 16
SUMMARY 17
CASE STUDY: Burke Road level crossing – questions for the community 18

Imagery
Inside Cover: North Melbourne Station
Image courtesy of Metro Trains Melbourne
Page 4: Flinders Street Station
Image courtesy of Metro Trains Melbourne
Page 9: Nunawading Station
Credit: Peter Hyatt. Image courtesy of Arup
Page 11: South Morang Project
Image courtesy of Metro Trains Melbourne
Page 13: Commuters
Image courtesy of AECOM
Page 14: Rail Transit
Image courtesy of AECOM

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Victoria faces a range of economic challenges – a high Australian dollar, weaker global and national economic conditions, declining productivity and a substantial reduction in revenues, all of which constrain budget capacity. As the state’s population increases and our city’s economic contribution to the national economy becomes more widely recognised, the need to invest in critical productivity-enhancing transport networks continues to build.

Victoria plays a central role in the Australian economy. It is home to approximately one quarter of the nation’s people and represents one quarter of the nation’s gross domestic product. The quality of Victoria’s transport infrastructure, which was planned with the foresight of previous generations, continues to support our population and economic position today. However, the existing network is under stress and this creates a risk for Victoria’s future liveability and competitiveness. Over the last few decades, a lack of strategically focused planning and appropriate investment in transport infrastructure to meet growing social, economic and environmental needs, has diminished Victoria’s competitive position and created a significant infrastructure backlog.

At 30 June 2011, Victoria’s population was 5.6 million, and based on current forecasts, is projected to increase to 8.7 million over the next 40 years. Melbourne, which is home to approximately 75 per cent of Victoria’s population, is expected to experience a similar growth rate, moving from 4.1 million to 6.5 million over the same 40 year period. Considering our constrained economic conditions and rate of growth, we must start to explore innovative mechanisms to unlock new funding streams, and bring forward our infrastructure investment to generate an uplift in productivity and urban value.

In June 2012, the Committee for Melbourne published Discussion Paper on Funding and Financing Infrastructure in Victoria, which concluded the solution to infrastructure funding and financing issues was a change in the mindset of government and the community. Less than a fortnight later, Infrastructure Australia’s (IA) Infrastructure Finance Working Group (IFWG), published its report on Infrastructure Finance and Funding Reform. The reform report made a number of high-level recommendations, including the following: Governments should utilise appropriate models to drive revenue from the broader benefits delivered by major infrastructure projects, such as value capture for transport infrastructure… Many voices are recognising the fiscal challenge of an increasing funding gap facing all levels of government and the community.

Moving Melbourne aims to create a conversation for Victoria by examining value capture techniques and other funding options, that could be utilised to increase the pool of funds available to invest in critical transport infrastructure projects.

The Committee for Melbourne recognises that a large proportion of the community is yet to reach a level of understanding and acceptance around many of these concepts. However, given Victoria’s aspirations to improve its liveability and competitiveness, this is a conversation that needs to occur.

Victoria’s infrastructure requirements are well-documented. This paper does not seek to cover this ground, nor does it intend to prioritise one project over another. In that context, examples should be considered exactly as they are: examples, not priorities.
A city’s mobility is vitally important. Connecting people and places helps drive economic activity, sustains relationships and has been shown to improve well-being. An efficient and effective transport system is therefore critical to the success and functionality of Melbourne and Victoria.

The foresight of previous generations to plan and build quality transport infrastructure underpins Melbourne’s highly-prized liveability and consistent rate of growth. Arguably, if it was not for the vision and ambition of those before us to deliver city-shaping projects like the Melbourne Underground Rail Loop and CityLink, Melbourne would be a very different place.

Nevertheless, Melbourne and Victoria are now at a crossroads. Investment in transport infrastructure has stalled while population growth continues alongside a disproportionate increase in public transport patronage, and a growing freight task. Declining productivity is a risk for all Victorians.

Although the benefits of investing in transport infrastructure are widely recognised (improved mobility, local economic stimulation and job creation), the negative impact of under-investment to economic, environmental and social contexts is equally as important, and very real given the tight fiscal environment.

There is impetus for change as the cost of ‘do-nothing’ is significant. One of the major challenges facing governments of all persuasions is how to cost-effectively respond to the future demands on Melbourne’s transport network.

The current Victorian Government recognises these challenges and has responded by implementing a series of important reforms for the approval and management of high-value and high-risk projects; however, more must be done. Traditional sources of funding are dwindling as various changes play out in the macro-economic environment, and this is impacting the investment capacity of State Governments. Victoria is at risk of being left behind as other jurisdictions think creatively about how to fund their city’s future mobility.

An example of an innovative funding strategy was demonstrated in the United States (US) city of Los Angeles (LA). The LA 30/10 initiative was a funding proposal voted in by more than two-thirds of LA County voters in November 2008 to assist the delivery of 12 new transport projects over a 10 year period.4

The proposal featured a one-half cent sales tax called Measure-R that was applied across the entire county and used to fund targeted transportation improvements. By adopting a plan that was backed by an innovative and strong local funding commitment, the city was able to secure the rest of the investment required to fill the funding gap from state and federal partners.

The LA 30/10 initiative proves that strong political leadership and community support for the benefits of an identified program of city-building transport projects can achieve a significant acceleration in the delivery of an ambitious project pipeline.

**Funding and Financing**

There is a clear distinction between funding and financing, however there is constant confusion between these concepts. To clarify, these can be described as follows:

- **Funding** is the source of funds which ultimately pays for the infrastructure, and can be sourced:
  - indirectly from community members via the application of state or local government funds;
  - indirectly from infrastructure beneficiaries (for example value capture via specific levies); or
  - directly from infrastructure users (for example user pays via tolls on toll-roads, fares on public transport).

- **Financing** is money raised upfront and can be:
  - monies raised from banks and other investors to pay for infrastructure, which ultimately must to be repaid by one of the funding sources; or
  - not raised at all, if infrastructure is paid for directly from federal, state or local government funds.
In essence, funding must be available to repay finance. This is a critical conceptual point, as the availability of capital or financial products does not remove the need to identify a funding source. While there are specific issues – and opportunities – with funding and finance, they are not the same. It is the willingness of government or users to commit funding, which ultimately determines the level and pace of infrastructure development.

GOVERNMENT FUNDING

Direct government funding of infrastructure can be derived from three main sources:

1. Applying current tax revenues to build infrastructure;
2. Applying future tax revenues, by borrowing today to invest in infrastructure (thereby generating greater economic activity and thus tax revenue in the future); or
3. Sales of public assets, providing capital to reinvest in infrastructure.

Over the last two decades, federal and state governments have relied on surplus recurrent revenues to fund their expenditure on infrastructure, and as a result, have actively minimised the use of debt. This approach has reflected a short-term focus on generating cyclical budget surpluses and maintaining credit ratings. Political imperatives have also largely driven this strategy, rather than sound economics; resulting in short-term financial considerations being prioritised over long-term economic outcomes. This form of decision making has deferred projects which offer net economic benefits and could expand long-run economic capacity.

LA 30/10

The LA 30/10 initiative is accelerating the construction of 12 new transport projects that were scheduled to be built over a 30 year period – but will complete them in 10 years.

The concept uses funding from a 30 year sales tax, called Measure-R, as collateral to pay off long-term bonds and a federal loan.

Two-thirds of LA County voters voted in the Measure-R sales tax in 2008, which will commit a projected US$40 billion towards transportation upgrades. After subtracting 1.5% for administrative costs, the remaining money must be spent as follows:

- 35% for transit capital projects (new rail and bus rapid transit lines)
- 3% for transit capital on the Metrolink commuter rail system
- 2% for transit capital on rail cars and rail yards
- 20% for highway capital projects
  - 5% for operations on new rail lines
  - 20% for bus operation improvements
- 15% for local return (transportation money that individual cities decide how to spend).

In regards to the sale of public assets to release funds which can be reinvested into infrastructure projects, this discussion is beyond the scope of this paper. However, recent reports from IA and the IFWG have discussed the validity of such concepts.

PRIVATE FINANCING

Private financing is often seen as the solution to our infrastructure problems, with discussion to date focusing primarily on why our superannuation funds do not invest more in infrastructure. Private financing alone is not the solution to our infrastructure problems. The question of where the funding source necessary to repay the finance will come from, must first be answered.

All private sector financing raised from banks and other investors (including superannuation funds) to pay for infrastructure, ultimately must be repaid via a funding source (for example, user pays, value capture or government funding). Therefore, if there is an increase in the number of infrastructure projects financed by the private sector, funding for that infrastructure will need to derive entirely from, or through a combination of, the three funding sources mentioned.

The Committee for Melbourne strongly believes exploring the full range of funding sources will help generate the answers to some of our infrastructure challenges.

An example of how a range of funding sources may be used to address a current transport priority is in the topical area of grade separations – that is, removing rail level crossings from the road network. Melbourne has over 170 intersections where train tracks intersect with road; more than any other city in Australia, which significantly impedes traffic flow and creates public safety risks.

Eliminating these intersections by separating train infrastructure from the road network can yield significant benefits for public transport, road networks, and the broader community. When upgrading these locations, there are often opportunities to capture uplifts in property values throughout surrounding areas, and/or increase the possibility of raising funds from those that benefit directly from the upgraded infrastructure.

There are also wider benefits for the community, including increased productivity, safety, and urban renewal, which create a compelling case for governments to contribute significantly to these projects.

No single source of funding (other than the short supply of government funding) can support these projects. With a combination of funding sources applied however, the Committee believes the funding gap can be reduced and infrastructure investment can be brought forward.

This discussion paper explores a range of funding options, with the realisation that many of these concepts are difficult and unpopular to discuss. Nevertheless, the Committee is committed to driving an informed debate on how some of the complex infrastructure challenges we face might be solved.

CROSSRAIL

Crossrail is a major railway link under Central London, with an estimated cost of £15.9 billion.

A Crossrail Business Rates Supplement (BRS) allows the Greater London Authority (GLA) to collect financial contributions to fund this cost.

Under powers enacted in the Business Rates Supplements Act 2009, the GLA applies a levy of 2 pence per pound on non-residential properties with a rateable value of £55,000 or more in London (over 80% of businesses in London are exempt from the BRS, as their rateable value is below this threshold).

The BRS is collected on the GLA’s behalf by 32 London boroughs and the City of London Corporation, in conjunction with rates collections. The supplement is expected to run for 24–30 years, or until the GLA’s initial upfront borrowing is repaid.

The GLA financed 26% of the project cost (£4.1 billion worth of borrowing) via the application of the BRS, and the outstanding repayment of this debt is set to begin upon completion of the Crossrail construction works.

Crossrail farepayers will also contribute towards the debt raised during construction.

DALLAS AREA RAPID TRANSIT

Dallas Area Rapid Transit (DART) is a TIF arrangement exclusively for Transit-Orientated Development (TOD) projects and was approved in 2008 as a result of collaboration between DART and the City of Dallas. Key features include a 226 ha assessment district and a project lifespan of 30 years.

DART is expected to deliver US$328 million in incremental tax revenue, and stimulate around $1 billion of development based on property value prices increasing from US$320 million (2008) to US$3.52 billion (2038). Between 1999 and 2007, approximately US$4.26 billion of development projects undertaken adjacent to railway lines were attributed to DART. Studies have determined that residential and commercial properties near DART stations command 12.6% and 13.2% premiums respectively, as opposed to properties located elsewhere.
why capture value?

There is a growing body of international and domestic empirical evidence which demonstrates the benefits of transport infrastructure investment to real estate values and the wider economy. In an environment where there is increasing pressure on governments to deliver sustained and significant transport infrastructure investment programs, relying on traditional funding sources, such as user pays and direct government funding contributions, can only form part of the funding solution.

By providing a framework to monetise the wider benefits of improved transport accessibility and efficiency, value capture mechanisms provide government with additional sources of funding that can be targeted directly at the beneficiaries of the particular transport infrastructure project being invested in.

There is growing momentum overseas towards the use of value capture to support the funding of infrastructure projects, and the use of property development as a funding source for transport investment is well-documented. For example, property development has been a major contributor to funding rail infrastructure investment in countries such as Japan and Hong Kong, where land values are high and public transport mode share is significant.viii

There is also a long list of projects that have applied value capture levies on key beneficiary groups. London’s Crossrail project is a recent example (see page 8). This project involves 21 kilometres of new rail tunnel with 37 rail station connections (including eight new sub-surface stations). Project funding is drawn from a range of sources, including a business rates supplement, (an additional levy on non-domestic property rates in certain London boroughs, also known as a Benefitted Area Levy), that aims to raise £4.1 billion (25%) of the forecast £15.9 billion project capital cost. Sale of surplus land and developer contributions will also provide additional funding for the project.ix

Throughout the US, the use of value capture techniques has a long history, having supported delivery of numerous transport projects including, among others, the Dallas Area Rapid Transit, the Los Angeles Metro and San Francisco’s Bay Area Rapid Transit development, which introduced Benefitted Area Levies as far back as 1966.

The introduction of value capture techniques can generate a range of new benefits beyond pure funding. If implemented well, they can provide an effective and efficient source of finance, in addition to more traditional sources of finance. They are also equitable, in that they target the investment’s beneficiaries, and can encourage improved transparency and accountability in the infrastructure investment decision, with an onus on proving the connection of the project’s benefits to the value capture charge.

If we take for example, the case of improved grade separation across Melbourne’s road and rail network, the range of beneficiaries include:

- **Public transport passengers**
  – due to improved frequency and service quality;

- **Rail and road freight users**
  – due to improved operational efficiency generated from reduced congestion and travel times;

- **Business owners**
  – due to improved accessibility for their customers and/or employees;

- **Private transport passengers**
  – due to reduced congestion;

- **Land owners**
  – due to the increase in underlying land values and the potential increase in developed real estate values; and

- **Government**
  – due to improvements in property-based revenue streams, such as rates and land taxes from increased land values.

A variety of techniques have been employed domestically and internationally to capture the benefits generated by transport investment, and to use them as a funding source for the infrastructure which creates the benefit. These range from targeted levies linked to a defined area or group of beneficiaries (such as a Benefitted Area Levy), broad-based levies targeted at the broader public or potential beneficiaries (such as a Broad-Based
Transport Improvement Levy), through to levies which alter behaviour to encourage greater use of the public transport investment (such as a congestion charge or parking levy). An overview of these options is outlined on the following pages.

In the Australian context, value capture is still an emerging funding mechanism, and is yet to be widely adopted beyond the use of developer contributions to fund public infrastructure. However, local government has introduced a range of rates-based levies to support investment in community and local business area infrastructure, as well as community-wide charges to support investment in public transport. Generally, Australian governments have been slow to adopt alternative approaches to funding infrastructure, beyond the relative ease of selling surplus land and/or development rights for cash and works in kind (of which Barangaroo in Sydney is a great example), and developer contributions towards the provision of civil and transport infrastructure.

Depending on the number of stakeholders involved, the catchment area size, and the implementation approach, value capture mechanisms may involve a high-level of complexity in implementing and administering the regime which could offset the financial benefit.

There are also numerous legislative, public interest and implementation issues to consider before introducing a value capture mechanism (for example conceptualising the regime, defining beneficiaries, quantifying benefits, considering planning and land use impacts, setting the charge, legislative and public interest considerations, governance and administration).

Despite the technical detail that must be considered as part of the discussion of these funding concepts, public support is crucial to their implementation.

When introducing a new levy or charge, the governing body must prove a clear and demonstrable link between the levy that beneficiaries (businesses and/or residents) pay, and the improvements they receive in return. The case studies discussed in this paper have often involved high-levels of public consultations, support for the value capture levy, and a co-commitment to invest in proposed infrastructure projects, the latter being a crucial element to public support.
While each mechanism has distinct characteristics suited to different contexts, it is likely that a blend of alternative funding sources will need to be used in addition to federal, state and even local government contributions, to accelerate infrastructure investment. It is estimated that combining multiple innovative mechanisms which hypothecate revenue raised towards transport infrastructure investment, could help reduce demand on consolidated revenue to around 50%–60% of the project cost, thereby enabling governments to initiate a broader pipeline of investment. An overview of these mechanisms is provided in the following pages.

**FUNDING & FINANCING MECHANISMS**

- Benefitted Area Levy
- Broad-Based Transport Improvement Levy
- Incremental Rates Growth
- Paid Parking Levy
- Developer charges and development rights
- Road tolling
- User infrastructure Levy
- Congestion charging

**BENEFITTED AREA LEVY**

Benefitted Area Levies (BAL) – also known as betterment levies, special assessment districts, or value capture levies – aim to recover some of the benefits that specific areas and businesses receive from an efficient public transport system. BALs involve the application of a special levy to the properties and/or businesses within a defined area, using the collected revenue to fund new public transport infrastructure or contribute to public transport operating costs. BALs are widely accepted and utilised by local councils throughout Australia. They can be implemented in a number of ways (such as via supplements on rates on property owners or payroll taxes on business owners); and require a clear nexus between the public transport investment’s benefit, and an identifiable catchment of associated beneficiaries.

One of the most recent and successful use of a BAL to assist project funding is London’s Crossrail. In the context of Melbourne Metro (a current Victorian Government transport priority project), applying a BAL to businesses in the Melbourne CBD could have merit, as there are likely to be substantial benefits for CBD-based businesses. The project will provide increased capacity and accessibility for morning and evening peak travellers, while also increasing the efficiency of the entire metropolitan rail network.

A contribution from CBD-based businesses could be levied in the form of either a:

- **Rates supplement** – on CBD-based properties applied as either a flat or sliding scale rates supplement; or
- **Payroll tax supplement** – an additional premium on CBD-based business payroll tax calculated as a sliding scale rate based on payroll value.

Another method could involve applying a BAL to residential and business owners of properties located in proximity to significant public transport improvements, recognising that these owners may receive a value premium relative to properties with limited access to public transport. A levy...
GOLD COAST
RAPID TRANSIT

Stage 1 of the Gold Coast Rapid Transit project is an 18 year, $1 billion Private Public Partnership (PPP) contract. Stage 1 includes design, build, finance and operation of the light rail project.

It is 13km long and includes 16 stations. Future stages are expected to deliver a total corridor length of 40km.

Gold Coast Rapid Transit secured total funding commitments of $949 million from all three levels of government. In addition, a long-term partnership has been developed with private sector consortia for finance, build and operation of the light rail system.

The Commonwealth provided a $365 million capital grant on an unconditional basis.

The Gold Coast City Council is contributing $120 million via a BBTL on Gold Coast ratepayers. The Queensland State Government is providing $464 million.

Potential Application to Victoria

In order to accelerate the delivery of Melbourne’s current transport infrastructure priorities, a BBTL could be implemented in the form of an additional charge to ratepayers in the Melbourne metropolitan region. Councils could collect the levy on behalf of the Victorian Government, with revenues used to directly fund a program of critical transport projects that support metropolitan-wide benefits. This could include many of the projects on the current Victorian Government Infrastructure Australia priority list.

BBTLs could be applied under two main structures:

- **A flat levy** – potentially involving a flat levy per rateable property; or
- **A variable levy** – based on the rateable value of properties, similar to the approach used when determining rates and land tax.

Given that the infrastructure and systems to collect rates and land tax are already in place, this option would be relatively efficient to deploy. Combining the BBTL with a hypothecation regime that directs the levy to ongoing investment in public transport infrastructure, would distinguish the levy from ordinary government revenue mechanisms.

BBTLs raise significant funds over time. As a new source of funding to support public transport investment, BBTLs could enable governments to accelerate investment, and bring forward the productivity and social benefits this infrastructure generates.

INCREMENTAL RATES GROWTH

Good infrastructure undoubtedly has a beneficial effect on property values across the area serviced by the infrastructure. This increase in property values translates to a funding source, because there is an incremental increase in rates (and land taxes) which are calculated based on the unimproved value of property. This funding is only realised over time, so there is no immediate revenue stream. However, the future revenue stream can support financing, commonly known as Tax Increment Finance (TIF), as the future incremental revenue can be dedicated to repay financing. Indeed, both BAL and BBTL referred to above can be converted from a future funding source into cash for infrastructure via a TIF arrangement.

A key argument in favour of TIF arrangements is that they are equitable, efficient (linked to wealth gains by property owners),
and effective (do not have upfront price impacts or create a disincentive to the redevelopment of land). Additionally, in a large number of US cases, stakeholder support for TIF arrangements is a necessary pre-condition to their implementation, providing a direct link between the decision to invest and the investment beneficiaries.

Utilising this incremental rates growth via TIF has been widely used throughout the US to finance urban renewal and transport projects and is often used as a tool to encourage economic development. The Dallas Area Rapid Transit project collaboration with the City of Dallas is a notable example of how TIF can be used to support the financing of infrastructure that generates localised benefits (see page 8).xviii

Potential Application to Victoria

While having great appeal overseas, the use of TIF in a Victorian context requires further consideration of a range of jurisdictional, legislative and structural factors to ensure acceptability to the different tiers of government. Structuring the bonds to obtain sufficient appetite from capital markets also demands attention, given the connection to incremental property value growth.

PAID PARKING LEVY

Paid Parking Levies (PPL) are fee-based mechanisms charged against the use of parking bays within a defined area. PPLs can be implemented either as a levy, or as an annual fee, for a car park licence tied to a cap on car parks in a region. PPLs are commonly implemented in high congestion areas including CBDs and other key activity nodes.

Many cities around Australia (including Melbourne) employ PPL schemes as a means to modify behaviour of private vehicle users and to provide a funding source for public transport investment.xix

Due to existing infrastructure around parking bays, a PPL provides a robust revenue system with a secure and easy-to-implement collection method. PPLs also assist in shifting the behaviour of the community towards increased public transport usage, and are most effective when there is spare capacity in the relevant transit modes which private vehicle users migrate towards.

Potential Application to Victoria

Given PPLs are already successfully used within the Melbourne CBD and surrounding areas, one option may be to widen the boundaries to which the PPL is applied. This could involve expanding the PPL boundary by one kilometre, or targeting the PPL to congested areas where access to public transport is ample.

As is currently the case, the additional funds generated by increasing the PPL boundary would be targeted towards public transport investments.

DEVELOPMENT CHARGES AND DEVELOPMENT RIGHTS

Existing public transport infrastructure is often situated in central locations and can present attractive property development opportunities. This is particularly the case where land is scarce, rents and/or sale prices are high, and demand for developed outcomes (residential or commercial uses) is strong.

The acquisition of land above and/or adjacent to key public transport stations provides an opportunity to contribute funding for the construction of transport infrastructure through the sale of development rights. Combined with amendments to land use planning that support appropriate uses and increased density around key transport nodes, there is potential to deliver urban renewal to the Victorian Government’s infill development targets.xx
Developer charges and contributions vary from development rights and are generally well understood. There may be opportunities to capture value through increases in developer charges, connected with density bonuses and planning gain bonuses, given land use planning may support land value improvements through, for example, increased density or changes in allowable uses.

The City of Surrey in British Columbia, Canada, has used redevelopment-related property taxes to fund its public transit system (see opposite).**21**

**Potential Application to Victoria**
Given there are a number of drivers influencing people’s decision to live and work in areas well serviced by public transport, such as cost of living pressures, traffic congestion and concerns about climate change, there can be strong demand for Transit-Orientated Development (TOD) outcomes. In addition, from the Victorian Government’s perspective, there are a range of social and financial benefits to government from promoting infill development over development on the urban fringe.**22**

In the case of application to grade separations, there may be opportunities to sell development rights to allow TOD above and/or adjacent to the grade separation. Upon completion, surplus land could then also be sold for development.

Whilst there are many challenges with development above and/or adjacent to public transport infrastructure (such as construction and operation interface and construction cost considerations), the value derived from the sale of development rights ultimately accounts for these impacts. In pursuing TOD outcomes around priority transport nodes, the key for the Victorian Government will be to ensure that infrastructure designs account for TOD outcomes and that planning frameworks support an appropriate mix and scale of development.

**ROAD TOLLING**
Road tolling is a fixed charge or fee imposed on the direct beneficiary of a particular road asset. It is often linked with the provision of significant capacity or efficiency-enhancing infrastructure, and thus provides a privilege (for example, improved travel times) for its users.

Tolling, which is common practice around the globe, provides an opportunity to fund investment in new transport infrastructure in the locality the toll is collected. Melbourne has a number of successful toll roads that provide significant benefit to the functionality of the city, in many cases helping to shape major economic improvement.

One example of how road tolling was successfully used to contribute to the funding of transport infrastructure that improved localised traffic outcomes for the city was the Exhibition Street Extension for CityLink.

**EXHIBITION STREET EXTENSION**
The Exhibition Street Extension project was announced by the Victorian Government in April 1998 and opened in October 1999.

It included a four lane divided road over the Jolimont Rail Yards which connects Melbourne’s CBD with CityLink.

The project delivered improved traffic outcomes for CityLink and Swan Street road users. Given the majority of benefits were accrued by road users, the use of new toll points was considered the most effective solution to fund the project.

Tolls for operating the project are integrated with CityLink and collected from road users by Transurban.

A User Infrastructure Levy (UIL) provides an opportunity to invest in new infrastructure and apply a charge to those road and/or public transit users who directly benefit from this new infrastructure through reduced congestion and improved travel times.

One example of how a UIL has been used to help bring forward the investment in a major piece of city-building transport infrastructure is the North-East Line in Singapore.

Potential Application to Victoria

In the context of Victoria, a railway-user infrastructure levy could be used to fund the construction of new rail infrastructure by adding a levy to the fare charged for its use. As noted in the discussion of BALs, Melbourne has previous experience with the use of a railway-user infrastructure levy to fund the MURL via the public transport ticket levy.

Melbourne Metro – a Victorian Government project involving the construction of a nine kilometre rail tunnel through the heart of Melbourne, linking the Sydenham (soon to be Sunbury) and Dandenong rail lines; can be used to provide an example of how a railway-user infrastructure levy could help fund a current transport priority.

The current project proposal includes five new underground stations at North Melbourne, Parkville, CBD North, CBD South and Domain. As the project is expected to provide improved access to part of the inner city and enhance service reliability and capacity, users of the new Melbourne Metro could have a surcharge applied to fares for use of the new line and associated stations.

A congestion charge is a fee-based mechanism aimed at limiting the number of private vehicles on the road by imposing a direct cost on the externalities that contribute to road congestion.

Two main congestion charge structures are utilised globally:

- Distance-based – users are charged for distance travelled through electronic tagging of vehicles; and
- Cordon-based – users are charged for entering a defined area (such as the CBD).

Distance-based and cordon-based congestion charges are capable of generating significant revenue. As an added benefit, congestion charges also help drive operational efficiency through higher utilisation of the public transport network, and reduce or defer capital expenditure on road networks in favour of public transport investment.

The most well-known congestion charge is the London Congestion Charge (see opposite), which was introduced in 2003.

Potential Application to Victoria

In the context of Victoria, this mechanism could provide an opportunity to influence the behaviour of private road users by implementing either a cordon-based charge, which could be levied on vehicles entering a given area (such as the Melbourne CBD), or a distance-based charge levied on mileage.

This would generate a significant amount of revenue which could be specifically targeted towards a defined program of public transport investments.
The quality of Melbourne’s liveability and competitiveness is connected to the quality of its transport infrastructure. In the past, our transport plan met our transport needs, and it was a key factor in delivering our success. Recently however, our lack of vision in appropriately planning for increasing demand has placed the transport system under stress; thereby impacting our liveability and competitiveness.

The need to plan for the long-term is not a new concept. The current Victorian Government has articulated its priorities in its current submission to Infrastructure Australia. At the same time, the government is considering the next 30–40 years as they develop the Metropolitan Planning Strategy. This will no doubt be supported by a long-term plan for Melbourne’s transport networks. The challenge is how to fund these priorities.

Infrastructure is a long-term game. It is expensive and does not become cheaper over time. As this paper highlights, there are a number of ways to pay for our transport requirements, some of which are more controversial than others. While many of the user pay options discussed in this paper may seem unpalatable in the short-term, a visionary approach to funding priority projects now will drive a range of important, long-term benefits (economic, environmental and social) in the future.

This paper has identified a range of ways various jurisdictions responded to the transport challenges they faced. In many instances, advancement for the future has required difficult and occasionally unpopular decision-making to transform the city.

The funding options outlined are by no means an exhaustive list of possible opportunities, and the Committee for Melbourne recognises that many are at times both difficult to understand and unpopular to discuss. Nevertheless, the Committee is committed to driving forward an informed debate on how all Melburnians can work together to solve some of our complex infrastructure challenges.

summary

In an environment where there is increasing pressure on governments to deliver sustained and significant transport infrastructure investment programs, broadening the range of options that can support the funding and financing of key projects is paramount.

LONDON CONGESTION CHARGE

The London Congestion Charge was introduced in 2003 in response to increasing public concern over the level of traffic congestion across central London.

The scheme imposes a £10 daily charge for driving or parking a private vehicle within the charging zone between the hours of 07:00 and 18:00 from Monday to Friday. All net revenue raised through the London Congestion Charge must, by law, be invested to improve transport in London.

In FY 2009–10, the scheme produced a net revenue of £148 million.

The 18 month period of public consultation prior to the scheme’s introduction was instrumental in making the congestion charge publicly acceptable.

case study: Burke Road level crossing – questions for the community

Melburnians have identified the safety and mobility issues associated with level crossings for many years. They impact directly on road and rail operations, while generating broader implications including safety concerns, the economic cost of congestion and lost productivity that can be attributed to operational delays. The problem has increased in recent years due to the strong growth in public transport patronage and the ever-increasing number of vehicles on Melbourne roads.

While the current Victorian Government is acutely aware of this problem and has made a greater commitment to remove level crossings than any other government in recent decades, project costs are prohibitive, and the planned rate of removal is outpaced by demand. Unless new initiatives can be implemented to increase the pool of funds available to invest in transport upgrades like level crossing removal, Melburnians will need to accept the present rate of delivery.

The following case study presents an existing scenario at a current priority site for the Victorian Government. The Committee for Melbourne’s objective is to identify the issues currently experienced at this location and others like it, and to create a dialogue about the options to help accelerate their removal.

Location
Burke Road in Glen Iris, immediately south of the Monash Freeway (CityLink) interchange and north of the Burke Road and Malvern Road intersection. The level crossing is located on a section of the Glen Waverley Line immediately adjacent to Gardiner Railway Station and on the Route 72 tram line.

Current issues
- Delays to road users including tram passengers due to regular closure of the boom gates. There are 6–8 trains per hour in each direction in peak periods, and around 150 services per day
- Delays to rail users and road users by association, caused by the 15km/h train speed restriction over the tram tracks
- Safety of pedestrians and road users crossing the tracks
- Safety of road users on Monash Freeway due to congestion impacts extending onto interchange ramps, particularly at peak periods
- The cost of staffing the crossing and maintenance of the track work
- Strategic importance of Burke Road as a main traffic route.

Potential benefits of removal
- Community – Reduce noise level, mitigate congestion, improve land use and local amenity, improve safety
- Road – Mitigate congestion, improve safety
- Train – Improve travel times, improve station access and facilities, reduce operating and maintenance costs
- Tram – Improve travel times, improve station access, remove track interface problems.
Existing issues:

- Delays to road users including tram passengers due to regular closure of the boom gates. There are 6–8 trains per hour in each direction in peak periods, and around 150 services per day.
- Delays to rail users and road users by association, caused by the 15km/h train speed restriction over the tram tracks.
- Safety of pedestrians and road users crossing the tracks.
- Safety of road users on Monash Freeway due to congestion impacts extending onto interchange ramps, particularly at peak periods.

Possible solutions to level crossing removal:

1. Potential development of station and adjacent land to fund works
2. Potential toll gantry at Monash Freeway off ramp to fund new works
3. Potential application of a Benefitted Area Levy

Questions

1. Do we as a community agree there is a problem at this location and other locations like it?
2. How could we accelerate the improvements at this location or other locations like it?
3. Would we be prepared to do so by making a contribution to the funding? Which mechanism, or combination of mechanisms, would we be prepared to contemplate?
4. What if not, then would we be prepared to allow the redevelopment of sites above and/or adjacent to transport stations to help fund improvements?
5. If not, then are we prepared to tolerate this potentially worsening situation?