

Turnbull seeks ways of tapping into land-value gains from new rail projects



Prime Minister Malcolm Turnbull announced his backing of the second stage to the Gold Coast light rail network.
Scott Fletcher



by [Jacob Greber](#)

Rail and other city-building projects could soon be funded by pledging to bond holders a slice of the future gains in land taxes generated by rising property prices under options being explored by Prime Minister Malcolm Turnbull.

Sources confirmed Mr Turnbull has made inquiries into the idea of securitising increases in land taxes or rates revenues that would flow from rising property prices located near new infrastructure.

While the concept is not yet at the formal policy proposal stage, Mr Turnbull signalled an eagerness to consider a range of innovative funding mechanisms.

Speaking on the Gold Coast after [pledging \\$95 million for stage two of the city's light rail project](#) – a project his predecessor Tony Abbott refused to fund – Mr Turnbull cautioned that direct grants were not the "only way the federal government can or should support infrastructure.



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Prime Minister Malcolm Turnbull has signalled an eagerness to consider a range of innovative funding mechanisms. **Kim Stephens**

"In the future, we want to look at more innovative approaches; we want to look at arrangements where we can partner the state governments or city governments as shareholders, as investors.

"We also have to look creatively at how we capture the value that arises from the increase in property values and the improvement in the utility of adjacent land from the building of infrastructure like this," he said standing next to the Gold Coast light rail.

The potentially revolutionary approach could involve governments estimated increased property values, taking the expected windfall in land taxes and rates and turning that revenue stream into securities that could be sold to investors and hence used to fund infrastructure.

WINDFALL

It would hinge on both state and council involvement as the federal government doesn't control land taxes or rates.

However, the use of what is sometimes termed "tax increment financing" is becoming more common overseas, particularly in the United Kingdom and the United States, and effectively brings forward the economic windfall that typically accompanies new rail and other improvements.

Rail projects have become a key focus for Mr Turnbull, who has used his support for the transport mode to distinguish himself from Mr Abbott, who argued that rail was a state government domain.

Paul Fletcher, federal Minister for Territories, Local Government and Major Projects, confirmed the Prime Minister's interest in capturing increases in land value linked to new projects, but said it still needed to do "a lot more work.

"What Mr Turnbull's really signalling is that this is a direction that the Turnbull government is interested in exploring," Mr Fletcher told *The Australian Financial Review*.

"Well-designed urban infrastructure can deliver substantial benefits in land value increases," he said.

"Are there measures or policy instruments that you could use that would allow you to contribute to the cost of infrastructure and therefore get public transport projects built in circumstances where it would otherwise be difficult to get the funding?" Mr Fletcher said.

Experts believe such funding models are an essential part of encouraging more private-sector involvement in infrastructure and unlocking a greater share of savings from the nation's gargantuan \$1.9 trillion superannuation sector.

HOLY GRAIL

Private sector funding is increasingly becoming the holy grail of city development, not least because of sharply constrained federal and state budgets.

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However, others have suggested that even this figure would fall well short of the growing national need for new projects.

Liberal leader John Hewson has suggested the infrastructure shortfall – or under investment – could be up to \$55 billion in NSW and Western Australia alone.

Renewed emphasis on infrastructure funding comes in the wake of last week's Labor announcement that it would create a \$10 billion "bank" to invest in new projects – an idea Treasurer Scott Morrison signalled he would consider.

Spurring infrastructure is widely seen as a vital way of boosting productivity and underlying economic growth, so long as projects are well chosen. The issue has become even more urgent given the drag on the economy from the end of the resources investment boom.

Former Infrastructure Australia board member and Curtin University Professor Peter Newman said the "genie has been let out of the bottle" on Canberra's renewed interest in rail.

However, he warned those seeking federal money would need to offer up proposals that involved both the private sector and provided a clear path for how they would "reshape" cities to make them better to live and work in.

NEW GOVERNANCE

"The basic idea of putting in federal money to assist with projects like light rail, is not just light rail as a transport project, but as a city-building, regenerative force," he said.

He said investors including super funds were looking for "new governance models" that would allow them to invest in projects, potentially including approaches that seek to capture rising land values.

Professor Newman estimates that Perth's southern rail line boosted the value of land around its stations by 42 per cent over five years.

"If you'd just taken the money that flowed through the land tax, stamp duty and rates increases, you would have paid up to 80 per cent of the cost of building the railway.

"They're not new taxes, but actual taxes that increased because of the railway," he said.

Greens senator Peter Whish-Wilson, who chairs a Senate select committee into infrastructure funding, said there was an urgent need to remove the politics from project financing.

"We're talking about hundreds of billions of potential projects," Senator Whish-Wilson said of the national under-investment in infrastructure.

"If we don't find a different way of pooling the financial risk, we're always going to be under-investing.

"De-politicise and de-risk, and you'll get the private sector in and find a way to capture the uplift [from projects]."

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