Policy Position –

Enabling Arterial Roads Package for Melbourne's Growth Areas

POSITION

1. Position Summary

Over the past five years, Melbourne's growth areas have delivered more than 72,000 lots (average 12,011 per year) to cater for Melbourne's growing population. According to the Victorian government's population figures identified in *Victoria in the Future 2015*, approximately 50% of metropolitan Melbourne's population growth of 1.9 million to 2031 is expected to be housed by the designated growth areas. This translates to an average population growth of 55,882 people per year, or 22,716 new households per year with an average household size of 2.46.

Unfortunately, despite the increased tax revenue, contributions and rates that accompany growth within Melbourne's outer suburbs, infrastructure funding hasn't kept up. According to the National Growth Area Alliance, the investment needed to address current backlogs and moving forward to 2031 in Victoria is $22 billion. Approximately 90 percent of this is related to transport.

The lack of a coordinated approach to funding and delivering infrastructure within Melbourne's outer suburbs needs to be addressed. Furthermore, their needs to be a continual commitment to an enabling arterial roads package for Melbourne's growth areas to ensure that new residents have adequate access to jobs and services.

The imbalances of funding for established suburbs and growth areas need to be addressed, with the shortfall from previous years need to be made up for. No longer can government ignore the need to provide vital infrastructure to Melbourne's current and future residents within the growth areas.

2. Recommendations

a. That the Victorian Government seek to cooperate with the Federal Government to develop a long term funding model for urgently needed enabling, arterial roads in Melbourne's growth areas. A funding package could be modelled on the Local Roads Package for Western Sydney, developed in 2016 in consultation with the urban development industry, and implemented in the 2017/18 budget period;

b. hat the Victorian Government engage closely with the urban development industry to develop an improved process for the development of local infrastructure delivery plans; and

c. hat the Victorian Government, through Infrastructure Victoria, establish a priority pipeline of enabling infrastructure in Melbourne's growth areas for early funding, based on a set of criteria including job creation, easing of congestion, strategic value and the enabling and multiplying effects of arterial road sub-arterial road projects.

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ABOUT US

Urban Development Institute of Australia (Victoria)
The Urban Development Institute of Australia (Institute) is the peak industry body for the urban development sector. In Victoria, we provide over 320 member companies with the benefits of policy and advocacy, industry intelligence, networking and business building.

Our members include developers, consultants, financial institutions, suppliers, government authorities and utilities. Together we drive industry discussion and debate and inform all levels of government to achieve successful planning, infrastructure, affordability and environmental outcomes.

DETAILED ANALYSIS & COMMENT

1. Challenge

Over the past five years, Melbourne's growth areas has provided more than 72,000 lots (average 12,011 per year) to cater for Melbourne's growing population. According to the Victorian government's population figures identified in *Victoria in the Future 2015*, approximately 50% of metropolitan Melbourne's population growth of 1.9 million to 2031 is expected to be housed by the designated growth areas. This translates to an average population growth of 55,882 people per year, or 22,716 new households per year with an average household size of 2.46.

This rapid population growth has and will continue to create major challenges for state and local governments as they struggle to keep up with the delivery of infrastructure and services needed to sustainably support these communities.

In 2013, the Victoria Auditor General found that:

> *"The total cost to state and local government of providing all the infrastructure needed in greenfield sites incorporating as yet undeveloped land is estimated at approximately $36 billion over 30 years. Over $18 billion of this cost is needed in state funding for transport infrastructure and services. This excludes the cost of maintenance and renewal."*

Along with the Victorian Auditor-General, industry groups and public policy think tanks such as the Urban Development Institute of Australia, the National Growth Areas Alliance, the Victorian Council of Social Services, the Grattan Institute and the RACV have consistently called for increased investment in enabling infrastructure in Melbourne's growing suburbs to address significant backlog.

According to the National Growth Area Alliance, the investment needed to address current backlogs and moving forward to 2031 in Victoria is $22 billion. Approximately 90 percent of this is related to transport.

In its 2012 report, *Growing Pains*, the RACV found that overall satisfaction with transport options and infrastructure is low in outer Melbourne and Geelong with an average rating of five out of 10 and a third of respondents feeling extremely dissatisfied with the options available in their municipality.

In 2014, the Grattan Institute's *Who Lives Where* report demonstrated the higher levels of disadvantage experienced in Melbourne's outer suburbs due to the fact accessibility to jobs is much lower.

Recognising the challenge for Melbourne's outer suburbs, the Minister for Planning, the Hon. Richard Wynne MP released *Background Paper 1: Managing Growth – Infrastructure for Melbourne's Outer Suburbs*. To address growth pressures within the outer suburbs, the paper outlines a strategy that includes the following elements:

- Coordinated funding;
- Better Planning for growth; and
- Increased state government investment.

2. Funding Responsibilities

The majority of public sector funding is reliant on the annual state budget process and the individual financial capacity of local governments. Other sources of funding include contributions made by developers, which are incorporated into the final price of a dwelling, and other taxation mechanisms such as the Growth Area Infrastructure Contribution charge.

Considering the significant backlog for infrastructure in Victoria, particularly arterial and sub-arterial roads, the current funding and delivery process is insufficient. Particularly for arterial and sub-arterial roads where funding is currently inefficient, inequitable and often characterised by long delays and protracted legal disputes.

According to the *Plan Melbourne Refresh, Background Paper 1 – Managing Growth: Infrastructure for Melbourne's Outer Suburbs*, funding responsibilities for arterial roads are spread across multiple sources. The following table outlines these funding responsibilities:

Element of Arterial Road	DCP	GAIC & IGF	Council	State	Federal
Initial Construction (Land and 1st Carriageway)	X				
Duplication			X	X	
Council roads and backlog			X		X
Declared State arterials		X		X	

Coordination of funding from the Growth Area Infrastructure Contributions, the Growing Suburbs Fund (previously Interface Growth Fund) and State government has been insufficient. For example, despite collecting almost $110 million (up until 2015 FY) only 5.5% has been spent.

Growth Area Infrastructure Contributions
According to the Metropolitan Planning Authority's *Annual Report 2014/15*, funding has been provided or is committed for the following:

Building new communities fund

- Berwick Station Park and Ride Upgrade
- Upgrade of intersection – South Gippsland Highway and Craig Road
- Upgrade of intersection – Mickleham Road, Greenvale Gardens and Dellamore Boulevard
- Car parking and public open space at Hume Regional Tennis and Community Centre
- Traffic signals at Ferris Road interchange intersection
- Upgrade to bus facilities, car parking and public space of Events, Aquatic and Leisure Centre
- Lithgow Street interchange

Transport fund

- Cragieburn Railway Station Bus interchange and Park and Ride
- Wallan Street Parkiteer Bike Cage
- South Morang Park and Ride

None of the above items seek to fund new arterial roads that will unlock our growth area suburbs.

Considering the multiple funding sources, the backlog of transport infrastructure appears to be in part due to the lack of coordination.

3. Possible Solutions

In addressing the backlog of infrastructure funding, the Institute have explored a number of options for unlocking and coordinating funding for enabling arterial roads.

Western Sydney Infrastructure Plan and Local Roads Package
The Australian Government identified similar problems inhibiting the development of the Western Sydney growth area. In partnership with the New South Wales Government and as part of the Western Sydney Infrastructure Plan, in 2014 the Australian Government announced a $3.5 billion 10 year road investment programme for Western Sydney.

The Plan provides improved road transport capacity ahead of future traffic demand, as planned residential and employment development comes online in western Sydney growth centre precincts and the Broader Western Sydney Employment Area.

The Australian and NSW Governments committed to jointly fund the road infrastructure plan through an 80/20 funding split. It is anticipated that over 4,000 jobs will be created through the local roads programme.

Value Capture

The value of a programme such as the Western Sydney Infrastructure Plan does not start and stop with its delivery alone. The multiplying effects of strategic infrastructure investment over an extended period are a key foundation of a strong economy.

As evidenced by the NGAA, overall investment in jobs, transport and community services in Melbourne's growth areas will lead to the creation of over 73,000 jobs. Furthermore, the present value of benefits is expected to outweigh the present value of costs for infrastructure by a factor of 1.66.

Australia wide, tax revenues from infrastructure investment within the outer suburbs is expected to boost tax revenue by $6 billion per annum.

Considering the economic lift in federal, state and local government revenue that results from funding infrastructure within the outer suburbs, Tax Increment Financing or TIFs is considered an appropriate value capture approach.

TIFs are not a tax increase, they are merely the hypothecation (dedication) of revenue to repay a bond. It effectively amortises the cost of infrastructure. The revenue is generated because the base upon which the tax is levied grows as a result of the building of the infrastructure. Because of this, it is possible for taxes from all three levels of government to contribute to a TIF.

TIF should begin by defining the infrastructure to be built, the cost of the infrastructure, the funding sources (that is, identifying the uplift in what taxes will be hypothecated), timelines, goals, objectives and identify the precinct. A bond is then raised.

At the local government level, TIFs can apply to the potential increase in rates caused by the increase of land values of new communities and the low costs associated with maintaining roads and facilities within the initial years of an asset.

Local Infrastructure Delivery Plans

Plan Melbourne Refresh Background Paper 1 – Managing Growth: Infrastructure for Melbourne's Outer Suburbs identifies coordinated funding as a key element for delivering infrastructure within the outer suburbs. More specifically, the document identifies local infrastructure delivery plans as a mechanism for better coordinating future funding.

These plans will be the result of close collaboration between state and local governments and will identify funding from all sources – developers, local, state and Commonwealth governments – to plan for timely delivery of local infrastructure as new communities develop.

In considering the form of local infrastructure delivery plans, the Institute would like to urge the government to consider the following principles:

- Housing is to remain affordable, acknowledging the research that has shown that additional costs to the delivery of new housing can have an impact on the price of new housing by a factor of 1.60

to 4.69 (Based on research in Lyndall Elaine Bryant QUT thesis, *Who really pays for urban infrastructure? The impact of developer charges on housing affordability in Brisbane, Australia)*;

- Timing for the commitment of funding and delivery of infrastructure items are identified;
- Commitment to the funding and delivery of infrastructure items within a local infrastructure delivery plan is designed in a way that makes it equivalent to a legally binding agreement;
- Tax incremental financing methodologies and modelling is specified to ensure that all levels of government and the public understand how revenue increases are generated and spent to deliver local infrastructure;
- Infrastructure standards are based on the most cost effective measures for the delivery and maintenance of services; and
- Credits for works in kind equate to the cost of the item identified within DCP/ ICPs and the local infrastructure delivery plans.