

Freight Network Review

Working Group 6

Hypothecation of Funds

June 2002

Hypothecation of Funds Project Group		
Name	Role	Representing
Kerry Sanderson	Convenor	Fremantle Ports
Stuart McKnight	Project Manager	Department for Planning and Infrastructure
Steve Beyer	Member	Department for Planning and Infrastructure
Ross Kelly	Member	Community
Corrine MacRae	Member	Community
Bruno Osredecki	Member	Industry
Paul Trichilo	Member	Main Roads Western Australia

Technical Reference Group		
Name	Role	Representing
Michael Bonavita	Member	Fremantle Ports
Rod Gardiner	Member	LandCorp
Tim Hillyard	Member	Department for Planning and Infrastructure
Laurie Piggott	Member	West Australian Government Railways

External Consultants		
Name	Role	Representing
Steve Meyrick	Consultant	Meyrick and Associates Pty Ltd
Neil Aplin	Consultant	Meyrick and Associates Pty Ltd

Freight Network Review		
Name	Role	Representing
Janette Hartz-Karp	Overall Project Facilitator	Office of the Minister for Planning and Infrastructure
Steve Beyer	Overall Project Coordinator	Department for Planning and Infrastructure

This paper is one of a series of Papers for the Freight Network Review.

The Working Papers in the series are:

- Paper No. 1 Sustainability in Relation to Freight
- Paper No. 2 Freight Network Master Plan
- Paper No. 3 Strategy to Increase the Use of Rail
- Paper No. 4 The Role of Regional Ports in Reducing Metropolitan Road Freight Activity
- Paper No. 5 Fremantle Inner Harbour Capacity and Limits
- Paper No. 6 Hypothecation of Funds**

Executive Summary and Recommendations

Hypothecation earmarks or quarantines revenue from specific sources, which is directed to specific expenditure. This funding mechanism has been widely accepted by the community and industry in the past for transport infrastructure. Broad examples include taxes and levies on specific transport-related goods or services, revenues from land sales, particularly of land acquired for transport purposes, and value capture from infrastructure improvements.

Benefits of hypothecation include increasing funding transparency, accountability and predictability. Hypothecation also enhances community acceptance of public revenue raising by demonstrating the direct outcomes achieved. The Department of Treasury and Finance has indicated that it does not support the view that funding from general revenue lacks transparency and that hypothecation will necessarily increase transparency.

Hypothecation of the proceeds from the sale of land has constraints relating to the timing of realising optimal returns from land development/disposal and issues of latent and competing local community claims for a share of the proceeds. Managing the process with clearly defined expectations and outcomes can mitigate these constraints.

This paper has six general recommendations for long-term hypothecation of funds for transport projects that cover:

1. Moving towards greater transparency and predictability with **agreement that funding from the sale of assets no longer required for transport projects will be transferred to other required transport projects based on the need to meet desired transport outcomes;**
2. Using the Metropolitan Region Improvement Fund to purchase land reserved under the Metropolitan Region Scheme which is required for **transport infrastructure. Relevant agencies would then purchase the specific areas required when project is given construction priority;**
3. Ensuring expectations are not unrealistically high in terms of dealing with **competing interests** of the local community given the need to meet specified transport outcomes;
4. Directing a higher proportion of the funds realised from sale of existing **rail assets** to additional rail infrastructure;
5. **Further investigation of capturing value** increases arising from Government infrastructure investments and applying the revenue realised from this value capture to those infrastructure investments; and
6. Considering greater use of **developer contributions** for transport infrastructure.

This report also makes three specific recommendations for funding priority transport infrastructure improvements in the short-term:

1. Supporting the Leighton Redevelopment Community Consensus Forum outcome in terms of hypothecating \$9 million from the redevelopment of the **Leighton Marshalling Yards** to fund a rail loop to North Quay;
2. Hypothecate funds from the development and disposal of land previously acquired or held for the no longer proposed **Fremantle Eastern Bypass** to fund road network improvements; and
3. Hypothecating the potential proceeds from the sale of land surplus to the requirements of the **Fremantle to Rockingham controlled access highway** for transport infrastructure.

Additional land assets identified that may have potential for hypothecation include surplus land along the Fremantle-Rockingham Controlled Access Highway north of Russell Road and rail-related land assets in Kewdale and Welshpool.

Recommendations

Recommendations and the reasons for them are contained in Sections 4 and 5 of this report. However for ease of reference the recommendations are also listed below.

Recommendation 1

Whenever funds have been used to purchase properties for anticipated future transport infrastructure, if those properties prove to be surplus and can be sold, the revenues and any profits should be paid back to those funds and used to fund replacement or additional transport infrastructure or associated land requirements.

Recommendation 2

Properties which need to be acquired for transport infrastructure and are reserved under the Metropolitan Region Scheme should be funded from the Metropolitan Region Improvement Fund. The transport agencies would then purchase the specific portion of land required for the transport infrastructure (eg road reserve, utility easement) when the project is given construction priority.

Recommendation 3

To limit unreasonable and competing interests for a share of the proceeds of the sale of government land, a policy should be developed to provide more certainty in terms of expectations. The policy should clarify the fact that if infrastructure or proposed infrastructure is removed as a result of the sale or development of a parcel of government land then it needs as a priority to be replaced and funds allocated as a priority to this new transport infrastructure.

Recommendation 4

Given the priority the community places on the increased use of rail for the freight task, at least 50% of the proceeds from the sale of surplus rail assets be used to fund Government-supported priority rail projects, rather than the funds being used solely for debt reduction.

Recommendation 5

The ability to use value capture by way of use of part of the increased value to fund the transport infrastructure needs to be further considered and action taken where appropriate. To avoid this proposal going nowhere responsibility should be allocated not only to consider this but also to act to put the necessary and equitable mechanisms in place.

Recommendation 6

The feasibility of extending and formalising the levying of developer contributions for major transport projects, including major freight and public transport links should be examined, as should the prospects for extending contributions by industry benefiting from particular roadworks.

Recommendation 7

The potential for a partnering arrangement with local government and/or individual landowners in the area should be examined to see if sufficient funding can be contributed by potential partners to enable the grade separation at Daddow Road to proceed.

Recommendation 8

Consistent with the other recommendations in this report, it is important the funds from the sale of the properties previously acquired for the FEB are allocated to the replacement transport infrastructure.

Recommendation 9

Potential proceeds from the sale of surplus land purchased for the Fremantle to Rockingham controlled access highway north of Russell Road be investigated for hypothecation once the extent of any surplus has been determined.

Contents

Executive Summary and Recommendations	3
1 Introduction	7
1.1 Objective	7
1.2 Definition of Hypothecation	7
1.3 Scope and Outputs	7
1.4 Policy Levers	7
2 Overview of Funding and Hypothecation	8
2.1 Types of Funding	8
2.2 For and Against Hypothecation	8
3 Hypothecation in Practice	11
3.1 General	11
3.2 Examples of Narrow-Based Hypothecation	12
4 General Principles and Recommendations for the Application of Hypothecation to Freight Transport	14
4.1 Outcome-Based Funding	14
4.2 Competing Interests	15
4.3 Rail	15
4.4 Value Capture	16
4.5 Developer and Industry Contributions	16
4.6 Toll Roads	17
5 Specific Funding Sources and Application to Priority Projects	17
5.1 Rail	17
5.2 Road	18
6 Conclusion	20
7 Action Tables	21
Glossary	25
References	25
Appendices	26
Appendix A: Economic Importance of Freight Transport	26
Appendix B: Taxes and Charges as Hypothecated Funds	26
Appendix C: WAGR Land Rationalisation Program	29

1 Introduction

Freight transport and logistics activities are critical to the efficient functioning of our society and our economy. Nationally the value added through these activities has been estimated at \$57 billion per year or 9% of the Gross Domestic Product.

Maintaining the infrastructure to support and enhance the movement of freight becomes more critical as freight volumes grow, land-use conflicts increase and general transport demand utilizes more of the existing capacity.

1.1 Objective

Within the overall goal of the Freight Network Review, the Hypothecation of Funds Project focuses on Perth's metropolitan freight transport network with the objective of ensuring adequate and timely funding for priority freight transport projects.

1.2 Definition of Hypothecation

Hypothecation (of revenues) is a term commonly considered to mean that a source of revenue or earnings from public taxation or other revenue raisings is earmarked or quarantined in advance for a specific expenditure or public account, in this case, freight transport.

The corollary is a revenue stream that is directed to a central general fund for subsequent unspecified distribution.

There are circumstances where hypothecated revenues are paid to a central fund but are still formally quarantined to a specific programme.

1.3 Scope and Outputs

The project reviews current and potential future funding mechanisms to meet priority *freight transport* requirements.

The outputs of the project will be:

- develop broad principles for situations where hypothecation is justified
- in line with these principles, identify specific revenue sources or properties that can be hypothecated for freight infrastructure developments.

The first output comprises examining existing funding policies and practices and developing principles for funding of priority projects comprising the freight transport network. The second output focuses on the freight transport infrastructure improvements at the Fremantle Port, Kewdale rail terminal and the rail and road links between these two nodes.

1.4 Policy Levers

The policy levers identified by the Policy Task Force that are relevant to the Hypothecation of Funds project are:

- 1) Hypothecate Land Sale Proceeds to Fund Freight Initiatives
 - Hypothecate proceeds from the sale of land, no longer required for original or continuing transport purposes, to fund freight transport initiatives.

- 2) Provide Financial Support to Achieve Commercial Viability
 - Provide “first user” financial support for new private investment and/or “start up” of alternative modes for the purpose of reducing impacts of current freight operations and achieving commercial viability within a reasonable time.
- 3) Adopt Charging Regimes to Achieve Desired Outcomes
 - Adopt charging regimes, taking into account direct and indirect costs, to achieve desired economic, social and environmental outcomes.

2 Overview of Funding and Hypothecation

2.1 Types of Funding

The Government can raise funds through general taxes, which are pooled in a common fund and then dispersed to deliver services and outcomes as required. This provides a significant level of flexibility to respond to pressures to address community issues. However, a major shortcoming is that there is a lack of transparency with general funding - there is no way to track the funds from their initial source through to their eventual purpose.

A community concern raised in the first Freight Congress was that Government revenues raised for freight transport should be transparent with a clear link from the source to the application of those funds. Specific purpose funding allocations help address this issue of traceability. Even with specific purpose funding proposals there are ‘broad’ and ‘narrow’ funding options:

- Broad specific-purpose funding – funding where both the source and purpose are related (eg. freight transport), but the funds may be used in a number of different ways. For example, vehicle registration fees or fuel levies allocated to road development. Often, this type of funding mechanism is created through statutes.
- Narrow specific-purpose funding – funding from a specific source that is to be used for a specific purpose. For example, sale of assets in one location to pay for similar assets in another location or a toll on infrastructure to recoup its capital costs over a number of years.

The hypothecation we are considering in this paper is the narrow specific-purpose funding.

2.2 For and Against Hypothecation

2.2.1 The Historical Position

Historically, arguments by those opposing hypothecation seem to have been at least loosely based on micro-economic theory. The traditional position has been that taxation and other forms of revenue raising by government on the one hand, and expenditure decisions on the other, are essentially independent vehicles for achieving income distribution and welfare improvements. In this view, imposing constraints that link specific sources of revenue with specific forms of expenditure unnecessarily constrains these decisions, and the imposition of any additional constraints on a system of decisions raises the possibility that these constraints will exclude ‘optimal’ resource allocation decisions. According to this view, the best economic outcomes will therefore be

achieved if Government is free to re-allocate resources across the economy based on a centralised assessment of whole of economy spending programs, using both taxation and expenditure decisions to achieve the desired outcome.

2.2.2 Economic Reform in Practice

The validity of the historical position is virtually unassailable if the assumptions that underlie the theory are met. *In practice, however, they are not, and differences between the hypothetical world of economic theory and the real world of practical funding allocation have led practical policy makers to drive economic reform in a very different direction.*

In practice, the perfect knowledge of needs and outcomes, and the complete flexibility in fund allocation, that underlie the theoretical prescriptions are conspicuously absent. Most governments, in practice, have a fixity in programme commitments and do not undertake a rigorous prioritisation of programmes across all portfolios. In reality, there are significant rigidities in budget formation that result in minimal shifts in programme spending from year to year.

An awareness of these practical constraints has led to the development of an economic reform agenda that diverges markedly from the historical and theoretical approach to government revenue raising that is suggested by those opposing hypothecation. This is perhaps most dramatically illustrated in the widespread and largely successful trend in Government to corporatise and privatise much of the public sector delivery mechanisms.

Corporatisation, while often introduced to increase the commercial focus of agencies by subjecting them as far as possible to the same disciplines, incentives, sanctions and competition as apply to the private sector, essentially operates similarly to a hypothecation mechanism in that it streams a whole set of revenues to a corporate entity and provides for the Government to obtain a share by levying taxes and requiring dividends. In past years, some of the commercial charges that are now internal revenues of the GBE were funds that flowed into the consolidated fund, and the expenditures now made by GBEs came from the same source. One of the prominent aspects of the micro-economic reform agenda has been to change this, to direct revenues from specific charges to specific uses through the device of a corporatised entity, and to require that the GBE controlling both these revenues and these expenditures be financially self-sustaining and to pay taxes and dividends to Government. We must look at why hypothecation has been so widely accepted within the corporatisation framework.

There are many answers to this question, but some of the most important are:

- Hypothecation of funds encourages a degree of **transparency** in the funding and expenditure relationships that enables and encourages **accountability** on the part of those managing the process
- Hypothecation of funds provides some security of income for capital intensive industries and therefore enables **reliable investment planning**
- Hypothecation makes clear to the consumers and users the **purpose for which certain charges are being levied**, and the benefits that flow from the application of the funds raised from those charges, and as a consequence makes the charges more acceptable to those who bear the burden of financing the activity

- Hypothecation makes it clear that the **revenue raised is a charge for a service provided** rather than a tax, which has a positive influence on the willingness of users to pay for a given level of service.

2.2.3 Hypothecation for Freight Transport

Although the advantages of hypothecation are clearest and most widely accepted at the level of the individual GBE, the second and third of the advantages outlined above apply with equal — perhaps even greater force — at the sectoral level. The first — increased accountability — also applies, although it may be argued that it applies with somewhat less force.

With regard to freight transport infrastructure, the advantage of reliability of investment planning is perhaps the most important. Sustainable and predictable funding of infrastructure development is especially critical in industries, such as transport, that rely on networks, because the full benefits of investment in one link of the chain can often not be realised until other elements of the network are completed. Where funding is erratic or uncertain, there is serious risk — indeed a likelihood — that those investments that are made will not realise their full potential economic contribution. For example, Roe Highway west of Welshpool Road (Stage 6), where the lack and uncertainty of future stages has reduced the utility of this road network.

This has been recognised in the transport sector literature, and various studies have sought to develop mechanisms — with or without corporate frameworks — for hypothecating funds raised from transport users or other transport-related sources to transport sector infrastructure.¹

Hypothecation to freight transport can also be justified by relating to the economic benefits of the freight and logistics industry. These benefits are covered in Appendix A.

The dangers that arise in the absence of hypothecation are again evident from the transport sector literature. It has, for instance, long been argued, and appears to be generally accepted, that a history of inadequate investment in rail infrastructure has reduced the efficiency of the rail sector, with undesirable economic, environmental and social consequences.

Further evidence for the reality of this threat can be gleaned from a review of motives behind the privatisation programs in both developed and developing countries. Capital starvation is one of the most commonly accepted motives for seeking greater private involvement. Private sector investors are attracted only because the prospective revenues from the enterprise can be used to meet their investment costs, including their required return. This implies that the revenues are, in principle, available to meet the capital needs. Often the key missing link is a mechanism for directing them to that end.

There is an emerging realisation that the transport industry and the environmental standards are increasingly intersecting with the emphasis on sustainable transport. The growth of freight, the increasingly strong community support for the use of rail for freight transport and the increasing urban demand for freight in smaller, more frequent lots, are placing great pressures on our mid-

¹ See, for instance, Cox and Meyrick, Refocussing Road Reform.

twentieth century freight infrastructure. The private sector is now using multimodal logistics solutions and the public infrastructure is simply not matching the demands.

There will need to be innovative, robust, expedient and new methods available to fund the works required to meet current demands for a sustainable transport system. While some of this may be able to be funded by the private sector over time, it is unlikely to be the case for the base infrastructure.

2.2.4 Community Support

Convincing those who bear the cost burden in terms of paying taxes and charges to continue to do so is far easier where the benefits of a specific sacrifice are strongly evident. There are good examples of situations where a specific tax measure is acceptable to those taxed if all or part of the collection is directed to a specific project or programme. There are a number of reasons why this may be the case, and reasons for greater acceptability will vary from instance to instance.

General taxation is only palatable because Government returns it via a budget process for the provision of infrastructure, services and welfare. By itself it is not a politically attractive topic. It creates an easy identification of ‘losers’ - those who pay and an amorphous and mostly anonymous identification of beneficiaries. Taxes and charges that are returned to central reserves and apportioned as part of the annual budgetary process are rarely if ever tied to outcomes of government at the point of collection.

The “Your Taxes at Work” campaigns are sporadic and in a way highlight the political benefits of linking public revenue raising with government spending. It is a clear attempt to placate the taxpayers with concrete examples of taxation revenues at work.

3 Hypothecation in Practice

3.1 General

There have been many instances in which hypothecation has been used constructively to gain some or all of the advantages previously outlined:

- To increase transparency and accountability
- To enhance funding predictability in capital intensive industries and
- To demonstrate to the community the benefits to be gained from the specific revenue-raising measures and hence to secure community support.

There are many examples of hypothecation that have strong practical underpinnings and make common sense. Some of these are mentioned later in case studies.

In practice, hypothecation can:

- provide or ensure adequate and timely funding of projects;
- remove the vagaries of the public sector budgeting processes;
- reduce the uncertainty of funding and allow for long term commitments by investors;

- effectively diminish sovereign risk;
- encourage private sector partnering; and
- contribute to stakeholder ‘buy in’ at a project level.

3.2 Examples of Narrow-Based Hypothecation

3.2.1 Taxes and Charges

Hypothecation through taxes and charges has been common practice by the States and the Commonwealth. Appreciation of the importance of transport infrastructure has been reflected in fuel and vehicle registration fee hypothecation over many years. However, this situation has changed recently with the Commonwealth Government’s taxation reform agenda, which has broadened the taxation revenue base, primarily through the GST. While this has reduced the States’ abilities to collect certain taxes, there are still a number of cases of taxes and charges imposed to hypothecate funds for specific transport and other expenditure.

Appendix B has a number of examples of hypothecation mechanisms used both before and after these major changes.

3.2.2 Land Sales

The sale of property and its retention in trust for future projects is a common phenomenon for road expenditure elsewhere in Australia. Usually — although by no means always — the sale of property can be directed into projects. The sale of some of Vicroad’s land along the Bell Street corridor in Melbourne was directed to other freeway projects.

A current project in Wodonga involving the bypass of the interstate rail line around Wodonga and the relocation of the rail station and a freight terminal to a greenfield site is being funded in part by sale of around \$7m of publicly owned rail corridor and Albury Wodonga Development Corporation land. The argument put forward by the Council for the proceeds from the sale of these parcels of land to be rolled back into the project was that the removal of a rail line from the centre of town is of benefit to all residents and the sale of “public rail corridor” was the only possible way to finance the rail bypass. A poll of residents conducted by the Council and the local newspaper prior to the announcement of the project showed clear support for the development.²

There are some constraints which apply in terms of the application of funds from property sale to freight transport. These are:

- Timing of realisation of funds/revenues when the property sale may take some time to realise maximum value.
- Dealing with uncertainty regarding potential returns and scenarios.
- Development values are rarely fully realisable because of latent and competing community interests.

However, it should be possible to overcome these constraints assuming there is sufficient support.

² Source: City of Wodonga: Internal Planning Reports including Meyrick & Associates: Feasibility Study into the Wodonga Regional Logistics Centre August 2001.

3.2.3 Value Capture

Value Capture by Taxation

The concept of value capture provides for dedicated measures to recoup some of the benefit or economic rent from beneficiaries of some form of publicly supplied infrastructure or regulatory (planning) behaviour. The techniques vary and are described in part in Newman, Kenworthy Can Rail Pay? Light Rail Transit and Urban Development with Value Capture Funding and Joint Development Mechanisms Discussion Paper CRCA). They describe the use of local sales taxes and differential rating on properties in and around rail developments. Experience in Perth shows that a constraint to bear in mind for value capture is that urban rail developments tend to create value only in particular nodes. Moreover value capture is maximised by providing certainty in planning controls but not attempting to specify too closely the precise nature of any development.

While there is a sound theoretical argument for those who live near and benefit from a particular road or railway to pay, practical issues mean that the examples of levying beneficiaries of public spending e.g. on infrastructure, are not common. The converse is more so. For example, where a property or individual is adversely affected by a project, compensation (purchase of property or payments) or amelioration (noise barriers, double-glazing) are common remedies.

This may be because the establishment of benefit may be difficult. Although the principle of ad valorem taxes on improved property values is established, often property rates are only payable to local authorities. Historically, these authorities may have been unwilling to share this revenue even when property values in particular developments or nodes have increased significantly as a result of an external action. (eg the Perth-Mandurah rail and freeway extensions). This is partly because causality is often not explicit.

Nevertheless, there are strong advocates of the principle and the practice. The retention of economic rent to the property owner is a common phenomenon but can give rise to inequities in situations where the general taxpayer has funded the infrastructure and a significant part of the benefit is realised by way of increased value to property owners living close to the infrastructure. However there are difficulties because there are also lags between improvements and formal valuation and rating and this lag in time tends to diminish the perception of equity in any proposed taxation measure.

If value capture by taxation is to be used, it is useful to seek by referendum, survey or individual contract some set of pre conditions to an investment. An example of this was in San Francisco with the Bay Area Rapid Transit (BART) Project. Residents were asked if they would support the imposition of a sales tax on all goods to help pay for the BART system. A majority agreed and a significant number said they would transfer from car to rail if it were built.

It has been built and a sales tax was introduced but ridership was well below the survey forecasts. On further questioning, it was determined that the strong support for BART was so that others would use the facility and free up the roads. It was also supported as an option mode. The essence of this discussion is that there is a willingness to pay for the value a facility might offer to non-

users — a value which, by definition, could not be captured through direct charges.

Developer Value Capture

Another technique in use is to seek private sector partners and invite them to nominate value capture opportunities they can propose as an offset to the development of a piece of public infrastructure.

The development of the Airport underground rail line in Sydney saw the developer planning to transfer above ground (Greenmarket Square) development revenue streams against the cost of rail provision below ground.

The Victorian Minister for Transport has announced through his Department a call for developers to express interest in the development of four Regional Fast Rail projects in Victoria, The request for expressions of interest (Source: Department of Infrastructure Invitation for Expressions of Interest in Regional Fast Rail Projects; 31 May 2001) asks developers to nominate value capture opportunities that they or the Victorian Government could receive revenue by way of sale, development or lease. Ideas anticipated include:

- Development or lease of air rights at or around key nodes eg stations
- Lease of rail right of way to optical cable providers
- Land planning and zoning in and around rail
- Advertising and billboard leases
- Sale of surplus land corridors

4. General Principles and Recommendations for the Application of Hypothecation to Freight Transport

There are many examples of hypothecation being supported in instances where the community can relate benefits to costs. Conversely, the community is unlikely to be happy to see the proceeds of expenditures by Main Roads on property acquisitions going to fund general revenue when replacement road investments are required. Given the benefits of hypothecation in terms of transparency and accountability and urgent need to fund transport infrastructure improvements, the following general actions are recommended:

4.1 Outcome-Based Funding

Recommendation 1

Whenever funds have been used to purchase properties for anticipated future transport infrastructure, if those properties prove to be surplus and can be sold, the revenues and any profits should be paid back to those funds and used to fund replacement or additional transport infrastructure or associated land requirements.

This can be justified because in almost all circumstances, replacement road or transport infrastructure will be required to provide the service improvements that had been intended in the first instance. These funds would bear the risk if the proceeds of sale were less than the acquisition costs.

To improve efficiency in the application of funds it is proposed that land required for all future regional transport requirements in the metropolitan area and reserved in the Metropolitan Region Scheme (MRS) be purchased by the

Western Australian Planning Commission (WAPC) using the Metropolitan Region Improvement Fund (MRIF). Main Roads Western Australia (MRWA) or the other transport agency would then purchase from the WAPC the land actually required for the road reserve or other transport infrastructure up until the project is given a construction priority. This would allow all “remnant” land holdings to remain registered with and managed by the WAPC. Any additional required properties after the project is given construction priority would be purchased and managed by the relevant transport agency.

Recommendation 2

Properties which need to be acquired for transport infrastructure and are reserved under the Metropolitan Region Scheme should be funded from the Metropolitan Region Improvement Fund. The transport agencies would then purchase the specific portion of land required for the transport infrastructure (eg road reserve, utility easement) when the project is given construction priority.

4.2 Competing Interests

Using hypothecated funds from the sale of Government land for transport purposes implies the need for the community to understand and accept that the funds from the sale of these properties should not be used to provide additional public open space or facilities for the local community because if they were, sufficient funds may not be available for required replacement transport infrastructure etc. Moreover, the local community public open space requirements would already have been met by planning regulations and local community infrastructure, and should not be funded directly or indirectly by road or rail improvement fund sources. Otherwise sufficient funds are unlikely to be raised for transport purposes.

Recommendation 3

To limit unreasonable and competing interests for a share of the proceeds of the sale of government land, a policy should be developed to provide more certainty in terms of expectations. The policy should clarify the fact that if infrastructure or proposed infrastructure is removed as a result of the sale or development of a parcel of government land then it needs as a priority to be replaced and funds allocated as a priority to this new transport infrastructure.

4.3 Rail

Currently, virtually all funds from surplus rail assets are applied to the reduction of rail debt (see Appendix C). However, the community has freight rail as a high priority from a sustainability point-of-view and this means that additional funding needs to be found.

Recommendation 4

Given the priority the community places on the increased use of rail for the freight task, at least 50% of the proceeds from the sale of surplus rail assets be used to fund Government-supported priority rail projects, rather than the funds being used solely for debt reduction.

4.4 Value Capture

In practice the opportunity to capture revenue through taxing improvements in value will be enhanced if a proposal for value capture is approved in advance. The alternative is to consider private sector partnerships where value capture is by way of extraction of rents by a developer in exchange for investment.

The concept of value capture may have application to investments in grade separation for rail and road where this could add value to areas that receive improved access. While in the context of this paper value capture is directed, in particular, at value capture from industrial or other land uses that derive benefits from freight transport infrastructure, the concept itself is likely to have broader application along a new public transport link such as a passenger rail link.

Recommendation 5

The ability to use value capture by way of use of part of the increased value to fund the transport infrastructure needs to be further considered and action taken where appropriate. To avoid this proposal going nowhere responsibility should be allocated not only to consider this but also to act to put the necessary and equitable mechanisms in place.

4.5 Developer and Industry Contributions

Another form of value capture would be from developer or industry contributions based on the added value arising from transport infrastructure.

This could be for major roads, which would be needed to access the industrial or development area, and hence provide benefits to the industry, or from real estate developments, which are estimated to have increased in value as a result of particular transport projects (eg. the Perth-Mandurah rail or freeway extensions).

The concept of obtaining a developer contribution to cover major network requirements either for roads or for public transport has some similarity to the headworks charges currently levied by the Water Corporation and Western Power. Other examples of contributions include land ceded for 'Other Regional Roads ('blue roads') in the Metropolitan Region Scheme (MRS). Special agreements have been made for particular developments including a public transport contribution for the Ellenbrook residential development and contributions from industry for major roads.

While the relevance of developer contributions in the current context may be limited to freight transport for industrial land developments, these contributions may also be considered further as a funding mechanism for other transport infrastructure.

Recommendation 6

The feasibility of extending and formalising the levying of developer contributions for major transport projects, including major freight and public transport links should be examined, as should the prospects for extending contributions by industry benefiting from particular roadworks.

4.6 Toll Roads

Toll roads have been used in other states and in Europe to fund major additions to the road network. They can really only be used for major increments where a particular benefit in terms of time or cost saving can be realised such that the road users are willing to pay to achieve that benefit. The evidence shows they only work properly where the benefits are perceived to be worth paying for. At this stage most of the planned improvements in the road network are discrete smaller projects, which do not lend themselves to the application of a toll.

5 Specific Funding Sources and Application to Priority Projects

An output sought from this study was the identification of specific revenue sources or properties that can be hypothecated for priority freight infrastructure developments at Fremantle Port, the Kewdale rail terminal and the rail and road links between these two nodes.

5.1 Rail

5.1.1 Rail Loop to Replace the Rail Link Currently Provided by the Leighton Marshalling Yards

The North Quay rail loop is required to maintain access to Fremantle Port if the current access via the Leighton Marshalling Yards is removed in the process of redeveloping or rehabilitating the area. The estimated cost of this is \$9 million.

The preservation and enhancement of rail connections to the main container terminals on North Quay is strategically important to the future competitiveness of the Fremantle Port. Greater use of rail is strongly supported by Government transport and planning policies and by port users.

LandCorp has assessed the approximate value of the developable land and infrastructure costing associated with the Leighton Marshalling Yards. This information was provided to the Leighton Redevelopment Community Consensus Forum, which agreed that the revenue generated from the development and/or disposal of the Marshalling Yards will be directed to infrastructure, including the North Quay direct rail loop, site remediation and dune rehabilitation.

5.1.2 Other Rail

The Western Australian Government Railways (WAGR) owns a number of land parcels in Kewdale, Welshpool and Forrestfield that are no longer required and have been identified for disposal. Under current policies, the proceeds from the sale of this land are earmarked for reducing WAGR's debt under the Rail Discontinuance Bill and are paid into consolidated revenue.

5.1.3 Kewdale Rail terminals

There is a possibility that three rail terminals could be located within the Perth Airport site, which would release the present Kewdale rail terminals. Moreover the ownership and other issues mean that it is not possible to determine whether any public sector funding is required to improve the terminals or whether any rail terminal improvements later found to be necessary could be

funded by the owners of the respective terminals. Until this situation is clarified, no recommendation can be made.

A priority in the Kewdale area is the grade separation of the crossing at Daddow Road, Kewdale (\$6m) which is currently unfunded in the MRWA budget. It would be beneficial if some elements of this project could be considered for funding if a means of value capture of the increased property values could be found, either by local government agreeing to share a portion of the increased rate revenue or some more direct contribution. The increase in value would be likely to arise in terms of the improved accessibility for the area which would benefit from the crossing.

Recommendation 7

The potential for a partnering arrangement with local government and/or individual landowners in the area should be examined to see if sufficient funding can be contributed by potential partners to enable the grade separation at Daddow Road to proceed.

5.2 Road

5.2.1 Fremantle Eastern Bypass Alternative

The government has decided that the Fremantle Eastern Bypass will not be built. Given that land already acquired for this purpose will not be required the various development options for the land are:

- Sell the land as is;
- Develop the land (including constructing buildings) and sell;
- Rezone the land under the MRS/TPS and then develop to achieve higher densities; and
- Structure plan the area as part of a larger redevelopment project.

The estimated revenue from the various options are not fully known but the estimate for the first option is about \$24 million

A problem in realising value from the sale of property to fund priority freight transport is the competing demands of the local community for a share of the funds for purposes such as public open space or community infrastructure. Another problem is that it can take some time to realise revenues from development and disposal of property.

Recommendation 8

Consistent with the other recommendations in this report, it is important the funds from the sale of the properties previously acquired for the FEB are allocated to the replacement transport infrastructure.

5.2.2 Other Road Sources

If land has been acquired for transport purposes and subsequently a decision is made not to proceed, it would seem appropriate to redirect the funds raised from the disposal of the land to a replacement transport project. This is consistent with transport utility corridors funded through MRIF. An example would be Fremantle to Rockingham controlled access highway north of Russell Road, where if a decision is made to no longer proceed with the Highway, the properties could be sold to fund other road improvements required to replace the outcomes sought from that project.

Estimated proceeds from the possible hypothecation of the Fremantle to Rockingham controlled access highway north of Russell Road are not yet determined.

Recommendation 9

Potential proceeds from the sale of surplus land purchased for the Fremantle to Rockingham controlled access highway north of Russell Road be investigated for hypothecation once the extent of any surplus has been determined.

6 Conclusion

Developing and enhancing a sustainable freight network system needs a secure funding mechanism to achieve optimal social, economic and environmental outcomes.

Hypothecation in various forms has gone in and out of favour for a number of years. While it offers significant benefits relating to funding transparency, accountability and predictability, there are also a number of constraints and competing interests that can make it difficult to implement. Despite this, careful process management and clearly defined outcomes can realise the benefits of this funding mechanism.

Examination of a series of examples of broad and narrow hypothecation in this study leads to six general recommendations for longer-term and sustainable funding for priority transport projects.

Short term funding requirements can be met by hypothecating revenues from the Leighton Marshalling Yard and Fremantle Eastern Bypass redevelopments. Additional property assets have been identified that may be able to be hypothecated to fund immediate needs, but these have not yet been fully explored.

7 Action Tables

Recommendation 1: Outcome-Based Funding

Ref. No.	Proposed Action	Background / Influencing Factors	Estimated Cost \$ million	Source of Funding	Timeframe	Action Agency
1.1	Identify and remove policy and legislative barriers to using proceeds from surplus transport infrastructure assets for future transport infrastructure requirements.	Legislative constraints such as the Rail Discontinuance Acts currently prevent funds from surplus rail land assets from being re-used for future rail infrastructure.	n/a	DPI, WATA, MRWA	By end of 2003	DPI, WATA, MRWA
1.2	Establish a single asset register for all land assets purchased for future transport infrastructure within the Planning and Infrastructure Portfolio.	Will provide a means of efficiently disposing of surplus land once the transport infrastructure has been provided and the land required purchased or allocated for that purpose.	n/a	DPI, WATA, MRWA, MRIF	By end of 2003	DPI, WATA, MRWA

Recommendation 2: Outcome-Based Funding

Ref. No.	Proposed Action	Background / Influencing Factors	Estimated Cost \$ million	Source of Funding	Timeframe	Action Agency
2.1	Reinforce DPI's role as the manager of strategic land assets for transport infrastructure and resource appropriately.	The management of 'remnant' land assets may require a reallocation of resources.	n/a	WAPC, DPI	By end of 2003	DPI

Recommendation 3: Competing Interests

Ref. No.	Proposed Action	Background / Influencing Factors	Estimated Cost \$ million	Source of Funding	Timeframe	Action Agency
3.1	In consultation with the community, industry and Government agencies, develop a policy and guidelines governing the management of proceeds from the sale of Government assets.	Guidelines need to be clear, justified and unequivocal to provide funding certainty to government agencies.	n/a	DPI, Treasury	By end 2003	DPI, Treasury
3.2	Develop a process to establish and assess community priorities when dealing with competing interests for funds.	This is likely to be needed as part of the development of the guidelines (in action 3.1).	n/a	DPI	By June 2003	DPI

Recommendation 4: Rail

Ref. No.	Proposed Action	Background / Influencing Factors	Estimated Cost \$ million	Source of Funding	Timeframe	Action Agency
4.1	Amend policy and legislation as required including drafting amendments to the Rail Discontinuance Acts.	Required to permit at least 50% from the sale of rail assets to be used for additional high priority rail infrastructure investment.	n/a	WATA	By end of 2003	WATA

Recommendation 5: Value Capture

Ref. No.	Proposed Action	Background / Influencing Factors	Estimated Cost \$ million	Source of Funding	Timeframe	Action Agency
5.1	Review the existing mechanisms for capturing revenue from increased land values arising from transport infrastructure investment.	At this stage, a mechanism does not exist for capturing part of the increased value arising from investment in transport infrastructure.	n/a	DPI	By June 2003	DPI, VGO
5.2	Establish a mechanism to enable the State Government to capture increased land values that result directly from State Government investments.	Currently most of the increased value from State Government investments is only captured through land value increases which also increase Local Government rates.	n/a (source of revenue)	DPI	By June 2004	DPI, Treasury

Recommendation 6: Developer and Industry Contributions

Ref. No.	Proposed Action	Background / Influencing Factors	Estimated Cost \$ million	Source of Funding	Timeframe	Action Agency
6.1	Review existing mechanisms to agree contributions from developers and industry for transport infrastructure and services.	Special agreements have been used in the past such as the public transport contribution from the Ellenbrook residential development and special agreement areas for water and sewerage infrastructure.	n/a	DPI	By June 2003	DPI
6.2	Extend and formalise the existing mechanism for developer and industry contributions.	Review extension to transport infrastructure for freight use.	n/a	DPI	By end of 2004	DPI

Recommendation 7: Daddow Road Grade Separation

Ref. No.	Proposed Action	Background / Influencing Factors	Estimated Cost \$ million	Source of Funding	Timeframe	Action Agency
7.1	Grade separate the existing level crossing at Daddow Road, Kewdale over the freight rail line.	Industrial tenants currently have limited access to their premises and would benefit significantly from this investment.	\$6.0	Value capture from industrial tenants affected.	By end 2003	MRWA

Recommendation 8: Fremantle Eastern Bypass Proceeds

Ref. No.	Proposed Action	Background / Influencing Factors	Estimated Cost \$ million	Source of Funding	Timeframe	Action Agency
8.1	Hypothecate all funds from the sale of land reserved for the Fremantle Eastern Bypass for 'replacement' transport infrastructure.	Alternatives to the FEB will require funding. Funds from the sale of this land should go directly towards 'replacement' transport infrastructure to attain the same intended access.	n/a (Source of Revenue)	MRWA, MRIF.	By end of 2002	DPI, MRWA

Recommendation 9: Fremantle to Rockingham Controlled Access Highway

Ref. No.	Proposed Action	Background / Influencing Factors	Estimated Cost \$ million	Source of Funding	Timeframe	Action Agency
9.1	Identify all potential surplus land assets and hypothecate the proceeds related to the Fremantle to Rockingham Controlled Access Highway.	Affects the section of the Fremantle to Rockingham Controlled Access Highway north of Russell Road.	n/a	MRWA, MRIF	By end 2003	MRWA, DPI

Glossary

DPI	Department for Planning and Infrastructure
FEB	Fremantle Eastern Bypass
FNR	Freight Network Review
GBE	Government Business Enterprises
GST	Goods and Services Tax
MRIF	Metropolitan Region Improvement Fund
MRS	Metropolitan Region Scheme
MRWA	Department of Main Roads Western Australia
TEU	Twenty-foot equivalent units – an international standard measure for containerised freight
VGO	Valuer General's Office
WAGR	Western Australian Government Railways
WATA	Western Australian Transit Authority
WAPC	Western Australian Planning Commission

References

- Bureau of Transport and Regional Economics (2000) *Fremantle Port: Its Economic Impact*, Fremantle.
- City of Wodonga Internal Planning Reports
- Commonwealth Treasury (2001) *History of Fuel Taxation in Australia*, Fuel Taxation Inquiry, www.fueltaxinquiry.treasury.gov.au
- Cox and Meyrick *Refocusing Road Reform*
- Department of Infrastructure (2001) *Invitation for Expressions of Interest in Regional Fast Rail Projects*, 31 May 2001
- Meyrick and Associates (2001) *Feasibility Study into the Wodonga Regional Logistics Centre*, August 2001
- Newman and Kenworthy *Can Rail Pay? Light Rail Transit and Urban Development with Value Capture Funding and Joint Development Mechanisms Discussion Paper*, CRCA

Appendices

Appendix A: Economic Importance of Freight Transport

A recent study by the Bureau of Transport Economics has shown that the gross value added of logistics activities in Australia was around \$57 billion in 1999/2000, representing 9% of GDP. Of this total, transport and storage accounted for \$35 billion. This includes road and rail transport as well as port activities. Western Australia's share of this value would be at least \$6 billion of the total annually, or around \$3.5 billion for transport and storage. These figures are underestimates to the extent that they do not include the flow-on effects to other industries that provide inputs to logistics services.

The importance of having adequate transport links to and from major ports is further reflected in the value of commodities traded through the State's major ports. The value of exports and imports in Western Australia is more \$43 billion annually. The Port of Fremantle accounts for \$13.7 billion annually of this total (representing 90% of the value of the State's seaborne imports and 27% of the State's seaborne exports).

Port related activities are an important part of the logistics chain. A recent economic impact study of the Port of Fremantle showed that the port accounts for \$728 million annually of economic output and 5,792 full time job equivalents. The figures include the direct and flow-on effects of the operations of the Port of Fremantle.

Ports are also major contributors to government revenue, with payments in taxes and dividends totalling more than \$125 million annually, arising directly and indirectly from port operations in the Port of Fremantle

Freight movements generate significant economic activity beyond the function of getting goods from producers to consumers. On average, each commercial vessel that calls at Fremantle Port directly creates 1.3 jobs and indirectly creates another 2.0 jobs. Most of the indirect effects are from ship loading/unloading and land transport of container cargo and flow-on to wholesale/retail trade and to business and community services.

Appendix B: Taxes and Charges as Hypothecated Funds

Road Funds

Despite considerable recent aversion to hypothecation in many quarters, hypothecation of road-based taxation was common in most States and the Commonwealth during the 1980s and 1990s. The recent abolition of State taxes and Financial Assistance Grants to the States following the introduction of GST has diminished the opportunities for States to establish such schemes.

The change in taxation arrangements has caused much adverse comment by some. The following comment from the NSW Local Government and Shires Association is pertinent:

"Hypothecation of part of the fuel excise was acceptable to both Commonwealth and State governments in the 1980s but appears to be currently out of favour. This is nowhere more apparent than in NSW where the hypothecation of a state fuel franchise fee established in the lead up to 1988 as a 3x3 Program (3 cents per litre for 3 years). The excise was imposed on the condition that it was spent on roads. There was political and community

support for the program and it was extended beyond the bicentennial year. In fact, it was continued through the 1990's until the High Court challenge in 1998 when the state fuel franchise fees were deemed unconstitutional....Interestingly, this change in policy has not followed public opposition or even debate. Rather it reflects the influence of Treasuries in all jurisdictions when it comes to financial matters. Nevertheless, there is evidence that in some cases, the political will can be greater than that of Treasuries as evidenced by the increased use of the Medicare levy to raise funding for the gun buy-back scheme and proposed for the Timor effort.”

Source: Local Government & Shires Association of NSW
Discussion Paper on Road Pricing Jan. 2000

The examples of these Road Funds included Trust Funds established to accept receipts from:

- State Business Franchise Fees on Fuel as revenue for road construction
 - Better Roads Victoria Trust Account was established under the Business Franchise (Petroleum Products) Act 1979 in 1993 to earmark some \$157million in 1993-4 for State Road Projects.
 - 3X3 (three cents/litre by three years) for road funding in NSW.

- Hypothecation of Excise on Fuels
 - The ALTP-which was established under the Australian Land Transport (Financial Assistance) Act 1985-began on 1 July 1985 and provided funds for land transport over a five-year period. Most of the funds were provided to the States and the Northern Territory for expenditure on roads, but funds were also available for land transport research, road safety and administrative costs. (Funds were also available for railway improvement although the use of funds for rail projects was minimal). The ALTP was funded by payments-into the Australian Land Transport Trust Fund-of a share of the excise on petrol and diesel.
 - The Commonwealth introduced the Australian Bicentennial Road Development Fund (ABRD) in 1982 to develop sections of the road system to a higher standard by 1988, the bicentennial year. The ABRD was financed by a 1 cent per litre surcharge on the excise on petrol and diesel, which was paid into the Australian Bicentennial Road Development Trust Fund. This was increased to 2 cents in 1983 and indexed to CPI on a six monthly basis. (Source: Commonwealth Treasury; History of Fuel Taxation in Australia; Fuel Taxation Inquiry 2001 www.fueltaxinquiry.treasury.gov.au). The program provided that up to 25 per cent of total funds available for urban arterial roads over the life of the program, could be redirected to urban public transport capital projects, where it could be demonstrated that such expenditure would reduce traffic or wear and tear on the urban arterial road system.

Examples in Western Australia include the hypothecation of vehicle registration fees and the use of part of the revenue from parking received by the City of Perth to fund the Cental Area Transit (CAT) buses.

- Transfund New Zealand
 - Road Charges and other revenues are hypothecated for Roads and Public Transport programmes. Transfund is the State Owned Corporation charged with collection and distribution of funds to Relevant transport programmes.

Other Transport Sector Levies

- The Ansett Levy
 - This levy of \$10 per ticket sale on all domestic flights is being used to raise \$150 million to underwrite the severance entitlements of Ansett employees post the 2001 collapse of the Air New Zealand subsidiary.
 - While there is little economic logic to this levy, it has had a high degree of community acceptance. It is unlikely that a levy of similar magnitude for general taxation purposes would have had the same level of acceptance.

- Australian Maritime Safety Authority (AMSA) Levies on Shipping
 - Levy imposed to fund the AMSA expenditure on navigation and communication facilities for shipping around the Australian coast. A separate levy is made on oil companies and ships for protection of the sea from pollutants and spills of oil.
 - Some of the charges are levied according to the Net Registered Tonnage of the vessel. This is a crude surrogate for the volume of cargo and ability to pay.
 - These levies are not charges imposed by AMSA. They are taxation measures that are the subject of separate legislation. However, the Commonwealth has committed itself to paying over to AMSA a sum equal to receipts from the levies.

- Stevedoring Levy
 - This levy is collected by the Commonwealth (Maritime Industry Finance Co. P/L) and imposed on all international container movements (\$12 per TEU) and motor vehicle imports and exports (\$6 per vehicle).
 - The levies aim to raise \$250 million to repay redundancy entitlements in the stevedoring industry.

Other Specific Purpose Statutory Levies.

- The Commonwealth has introduced levies as a common form of program specific revenue raising for specific projects. Examples include the:
 - levy on Medicare to pay for the buy back of guns following the Port Arthur shootings.
 - levy on milk to fund the reformation of the Dairy Industry
 - proposed levy on Medicare to meet the costs of the East Timor reconstruction campaign.

Appendix C: WAGR Land Rationalisation Program

In April 1995 as part of the Right Track Program for the Modernisation of Westrail, Cabinet approved a surplus land disposal initiative known as the Land Rationalisation Program (LRP). The Cabinet decision included transfer of the land disposal powers of the Minister for Works to the Minister for Transport.

Subsequent to the Cabinet decision, the Land Administration Act was enacted and an administrative arrangement was entered into whereby DOLA disposes of the land, the proceeds are placed in the DOLA land territorial account and Treasury advances an equivalent amount to WAGR for debt retirement.

The process to identify and sell surplus land can be broken down into nine phases, not necessarily sequential:

1. Identification of potential surplus sites
2. Assessment as to surplus or not surplus
3. If not surplus assessment of potential to relocate infrastructure
4. Assessment of highest and best use
5. Due diligence including Heritage and contamination investigation
6. Cost benefit analysis
7. MRS and/or District Scheme rezoning
8. Relocation of infrastructure
9. Disposal

The LRP program is well advanced and practically all of the valuable sites within the metropolitan area have been identified. Major metropolitan sites already in the disposal process include the Forrestfield marshalling yards, the Kewdale shunting lines, the closed Welshpool railway alignment, Robb Jetty yards, Claremont yards, Victoria Quay, Leighton, Kwinana and a number of smaller sites.

Included in the Labor government's election platform is a Building Better Stations Program. Some of the proceeds of sale of sites along the urban network will now be used to fund that program.