

Julie Thompson

From: Geoff Dickinson [REDACTED]
Sent: Thursday, 7 September 2017 3:24 PM
To: two
Subject: Taswater Committee
Attachments: Submission to Legislative Council Select Committee - Taswater September 2017.docx; 2011 PC Value Capture Scan 1994 NSW Paper.pdf

Dear Ms. Exel,

Attached is a speech I made to West Tamar Council on May 16 2017 concerning my attitude and possible solution/s to the proposed Taswater action.

I have presented this speech, so it is not value free.. I ask you to allow it as a submission in the format it was presented. (Font size, italics, bolding and grammar as they were my guide when presenting as a speech, remain). I have left the first part (council mergers) in place as it has later bearing in maintaining continuity.

I am prepared to attend a Committee session to expand my thoughts.

In addition to my submission I attach a chapter on proceedings of another places investigations into aspects of transport economics. Water services are an example of transport infrastructure and transport economics.

Trusting this form of submission is acceptable.

Yours faithfully,

Geoff Dickinson

Geoff Dickinson

[REDACTED]

Familiar things happen, and mankind does not bother about them
It requires a very unusual mind to undertake an analysis of the obvious.
Science and the Modern World. A N Whitehead.

Submission to Legislative Council Select Committee – Taswater September 2017

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An Address to West Tamar Council 16/5/17 by Geoff Dickinson

Thank you for this opportunity to address Council. I wish to speak to two matters.

First the investigation into feasibility and scope of sharing services, merging or retaining the status quo with George Town Council.

On this, I offer a reflection I had on Anzac Day services in West Tamar. My thought was that such a fine community service would quickly be eliminated if West Tamar were to merge with Launceston Council.

The same scenario now applies in my mind for George Town Council. Both communities need local strength and I believe Anzac Day is a fine example of differences and similarities.

With that in mind I suggest that alternative means to a merger be investigated and the model I favour is a **shared resources of senior management model** with a **sunset term** been applied to revert to the current status quo.

You may call this a **“kick the can down the road”** approach – **well it is**. Information is needed by the pair of Council bodies and this could assist to provide necessary data.

On a similar note I point out that in NSW some forced Council mergers have been rejected by the High Court.

I said at the AGM in 2014, “The ultimate outcome of amalgamations is dilution of democracy”. I still believe that.

Second, I turn now to the Gen Man 2 item on the agenda

“Report: Proposed future ownership of Taswater”.

This is an issue that greatly concerns me.

As I see it the Minister is proposing to take over Taswater on the basis that the Tasmanian State will continue paying dividends to the Council owners for 8 years. **But what will happen then?**

By the time a Minister makes a grab move those 8 years could see another Government in power and that **“kicks the can”** of complete takeover onto a future Government.

Listen to the can rolling.

I have training in privatisation and public-private partnerships for sharing the *so called* risks and rewards.

Believe me, where it is proposed that such partnerships are supposed to be **symbiotic** (denoting a mutually beneficial relationship between different people or groups) the consultants, bankers and accountants in over 80% of cases ultimately turn the symbiotic relationship into a parasitic relationship.

The owners are leeches out of the partnership.

If there has to be a change in ownership or structure then allowing the Government to have its way can be thought of as **intergenerational plunder**.

The Taswater assets were built from the efforts and taxes of past generations of Councils and their constituent citizens.

Some Council's pulled their weight, some Council's did not.

I name Hobart, Glenorchy and Launceston as the major ones who fell short. Hobart and Glenorchy have already benefited (through Taswater and a \$5 million Federal Grant for water meters that they had not previously installed (necessary for two part pricing)). As for Launceston, how about the financial support they have had from various governments for **silt and sewerage debris** removal over decades? And still they all bleat.

Taswater exists because **socially responsible Councils** could offer support to some of what I will call the **populism** based Councils in the State by adding their assets to a merged body balance sheet.

The joint assets assisted those Councils that, had, for whatever reason, needed the financial strength of the other responsible Council's assets that could be utilised by forming local district water bodies.

Taswater was formed from those local district water bodies by further merger. **This was still a symbiotic relationship.**

Advisors, external or internal, to Governments, of whatever colour, will try and earn kudos, coin, cred or continuation by proposing appropriating someone else's assets, --- yours.

What is proposed will modify Taswater to a **parasitic** arrangement, the Local Councils providing the **"blood for leaching"**.

So is there a way forward?

In my statement at the AGM in 2015 I used the example of the **Sydney Harbour Tunnel financing as a good model for financing a public utility**. I believe a slight variation of that as a **"leasing" arrangement with a time set for future return of the assets** is worth deep consideration. The Sydney Harbour tunnel returns to State ownership from a 30 year agreement in 2022, less than 5 years from now. **Taswater could also be leased**. But do not consider a longer term than I suggest.

It is important that a time be set for such a leasing arrangement for Taswater to take advantage of Taxation and financial benefits and to ensure **return of the Taswater assets to the rightful Council owners**.

I mentioned **intergenerational plunder** earlier.

Consider if the takeover of Taswater occurs and then a future Government ultimately sells off the asset (in the **meme of Privatisation or asset recycling**).

This is plundering to the ultimate degree.

The parasitic relationship beats the symbolic relationship and the organism passes away.

There is no Intergenerational inheritance for future generation from the forbears of the past.

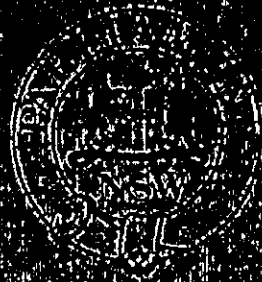
I now refer you to the closing remarks I made at the AGM in 2014.

Edmund Burke described the opposition to democracy as supporting the **pelf, perks and plunder of a prodigal group of opinionated people**.

Things have not changed. There is still a lust for positional power.

To that I also point out that Burke also pointed out, in an intergenerational theme

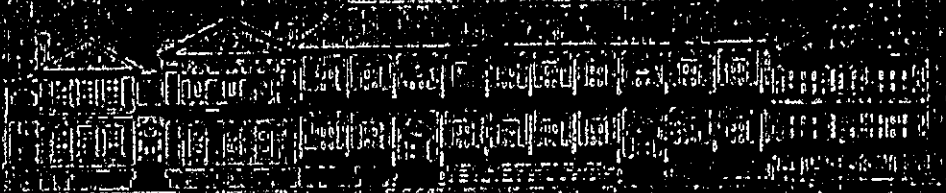
"Society is a partnership of the dead, the living and the unborn".



PUBLIC ACCOUNTS COMMITTEE

Financial Statements Management and Control
of the Government of New South Wales

Volume 2: Financial Statements Management and Control
Risk & Financial Statement Management and Control



Published by the Public Accounts Committee, New South Wales

4.15 VALUE CAPTURE¹¹⁴

Value capture is a mechanism by which governments and/or the private sector can reap the financial advantages conferred by a major piece of infrastructure on the neighbourhood around it. For example, land, factories, houses and businesses near a newly-constructed railway line typically become very much more valuable than they were before the line was built. Questions commonly asked in such a situation are:

- Who should reap the benefit of this increase in value? The federal, State or local government, the owners of the land, businesses and houses, or (if the line was privately-financed and -built) the private sector owners/builders? Or all of them?
- How is the increase in value to be calculated for each beneficiary?
- What mechanisms might be employed to collect or realise this increase in value?

In Australia, the concept of allowing the private sector developer of a piece of infrastructure to profit from the increase in value the infrastructure causes is a relatively new one. Local governments get extra rates paid by the newly-valuable real estate around the infrastructure; State governments may receive higher stamp duties on the sale of the neighbouring property; but it is not common at all yet for the private sector developer to be allowed ways of profiting from the neighbourhood's increase in value which has been caused by his infrastructure.

In fact, such a proposal was rejected by the Federal Government in the case of the Very Fast Train in 1991 in the report of the Senate Standing Committee on Transport, Communications and Infrastructure, *Aspects of the Proposal for a Very Fast Train*.

In America, on the other hand, there have been cases like the private-sector funded Chicago-Kansas City toll road where value capture has been used to help finance the road. In this case, fees were levied on developers of neighbouring factories, businesses and homes and were used to amortize the debt of the private sector developer of the road. In fact, fully 48.5% of the cost of the road was covered by these developer fees.

In Hong Kong, the government granted the Eastern Harbour Crossing Company, which built the rail part of the US\$442m Hong Kong Eastern Harbour Crossing, the rights to develop property on top of the main railway station. This boosted the internal rate of return on the whole project from 4% to 12%, and made the project viable for the investor¹¹⁵.

¹¹⁴ This section draws on Geoffrey Dickinson, (1992) *Sharing the Windfall value of Property Affected by Transport Infrastructure Projects*, unpublished M.T.E. thesis, Graduate School of Business, University of Sydney. Thanks are due to Mr Dickison for permission to use his work.

¹¹⁵ See Hiroshi Ishikawa, with David Lake, *How to BOT*, in *Infrastructure Finance*, Fall 1992.

Allowing developers to use such increases in value would undoubtedly make them more able to provide the infrastructure. It has been pointed out¹¹⁶ that an early cash injection into a project by way of value capture could make the probability of commencement of the project more likely; and that value capture could reduce the risks of a project¹¹⁷.

A 1990 feasibility study on the Chicago-Kansas City toll road¹¹⁸ noted the potential for value capture in financing that project:

There are essentially two modes of capturing the economic growth induced by the Tollway and using it to help pay for the road: (1) siphoning revenues from development or parallel uses occurring on land owned or optioned by the Tollway Utility and (2) having the state or local government collect special assessments, fees, or taxes in the geographic area around the interchanges that enjoyed the increased economic activity. There are several methods for a private tollway company to capture value added by the tollway, but they all come down to the company acquiring the land around the interchanges in anticipation of future development there, but at a price that will eventually allow it to reap profits from whatever it builds (or allows to be built by a buyer, developer, or lessee).

Benefits of value capture can be substantial. In 1990, for example, BRW estimated that value capture on the VFT could assist financing to the extent of over one billion dollars¹¹⁹.

On the other hand, the study on the Chicago-Kansas City toll road did recognise that there are limits to how much finance can be obtained through value capture:

This discomfort with relying so heavily on private value capture is a message not lost on developers of other major infrastructure projects. Note, for example, Florida's proposed High Speed Rail Network, which has been described by the Executive Director of the state commission appointed to support it as "a state-wide real estate development project with a train running through it." Even there, private sector value capture is likely to contribute only a negligible portion of total revenues to support the rail project.

In Australia, ways of using value capture to help finance privately-funded infrastructure projects are still in their infancy. No rules seem to exist at present on the matter, either in the form of guidelines or legislation. Policies on the matter need to be developed.

On the other hand, more has been done to ensure that the government, as opposed to the private sector, obtains some benefit from value capture.

¹¹⁶ by Dieter Helm and David Thompson (1991) *Private Transport Infrastructure and Incentives to Invest*, *Journal of Transport Economics and Policy*, Setp. 1991 pp. 231 - 247.

¹¹⁷ See Beasley, M.E. and Hensher, D.A. (1990), *Private Tollroads in urban areas: some thoughts on the economic and financial issues*, in *Transportation* 16(1), 1- 13.

¹¹⁸ Price Waterhouse, Shearson Lehman Hutton Inc., *Financial Analysis, Chicago/Kansas City Tollway Feasibility Study*, 1990.

¹¹⁹ March 30, 1990.

Part 4: Tools for Attracting Private Infrastructure

The former Premier, the Hon. N. F. Greiner, MP, brought the issue of value capture by government to the Committee's attention in June, 1992, when he forwarded copies of correspondence between the Hon. Dr Brian Pezzutti, MLC, and himself on the topic. Dr Pezzutti's concern was not so much that the private sector developer should be able to take advantage of the increase in value around the infrastructure, as that the government should derive that benefit. His letter made the following suggestion:

Perhaps we should look at land value increases prospectively whenever government intends to undertake major infrastructure development. We should be able to work out a way that government can take some of that land value increase which would otherwise be dissipated to a few landholders.

In reply, Mr Greiner made the following points:

As I am sure you will appreciate, this whole question relates to the issue of "betterment" taxes which is a particularly difficult and controversial policy area, and you would no doubt be aware of previous examples of such taxes which were included in the old Part XIII of the Local Government Act, and the new repealed Land Development Contributions Act in the 1960s.

In relation to the specific category of transport infrastructure, in Sydney, like Washington, there has been no modern example of directly levying land owning beneficiaries to help finance a major new public transport system. However the concept as applied to transport infrastructure itself is not new, and was floated with regard to the privately sponsored VFT project, but rejected at the time.

The concept, as it applies to transport infrastructure also raises a number of key issues, namely:

- whether the primary focus for public infrastructure funding should be directed to direct beneficiaries via fare structures and improved cost recovery levels rather than through indirect beneficiaries such as landowners;
- the real practical difficulties associated with defining both the value of the benefit and the boundaries of the benefit area;
- the application of the principle to situations of "disbenefit" whereby the Government would logically need to correspondingly compensate for any costs imposed on landowners.

These key issues raise fundamental questions about the practicability of "capturing" induced land value increases in this way.

It should also be noted that the New South Wales land tax system by using site value for collecting land tax, provides an effective and alternative means of capturing the economic rent flowing from the location of land. As a result, where infrastructure developments increase land values, the primary effect is on site values, and consequently, for sites subject to land tax, the tax liability will be quite sensitive to such windfall gains. Treasury also considers that site value is the best measure to encourage the development of land to its highest and best use.

The Committee understands that the New South Wales Department of Transport is currently refining the land value capture method of government financing of capital investments in rail network extensions. The implementation method currently favoured by the Department, involving either a floor space levy on non-residential premises within a defined benefit area over a defined levy period, or a stamp duty surcharge on property sales occurring within the benefit area during the levy period, seems likely to overcome most of the objections raised above.

In fact, some type of benefit assessment along these lines is virtually the only method available to levy an access charge for public transport facilities. As numerous discussion papers have shown, it is unreasonable to expect to recoup all operating and capital costs for rail from usage charges alone.

Discussion of value capture by government thus appears to be far more advanced than that of value capture by the private sector. Given the potential importance of this issue to private financing of infrastructure, it is time detailed policies were worked out on the subject. As Geoffrey Dickinson has said:

It could be said that the Australian cultural attitude to value capture is: "if you put the station near my land it's my good luck and you can have nothing of it"¹²⁰.

The issue of value capture and its potential use in the private financing of infrastructure is too important for this approach to be allowed to persist.

RECOMMENDATION 20

That the Government develop policy on the use of value capture to help finance privately funded infrastructure projects.

¹²⁰ *op. cit.*, p. 5.