



Appendix F

Value Creation and Capture Plan

February 2018

Contents

1	Introduction	F-3
1.1	Background	F-3
1.2	VCC Statement of Intent	F-3
1.3	Purpose and scope	F-4
1.4	Limitations	F-4
1.5	Status	F-5
1.6	Summary of recommendations	F-5
1.7	Next steps	F-7
2	Value creation mechanisms	F-8
2.1	Transport enhancement mechanisms	F-8
2.2	Property and planning mechanisms	F-13
2.3	Procurement, finance and ownership mechanisms	F-19
2.4	Design mechanisms	F-22
3	Value capture mechanisms	F-25
3.1	Property and development mechanisms	F-25
3.2	User and beneficiary mechanisms	F-29
3.3	Commercial mechanisms	F-30
4	Implementation	F-32
4.1	Alignment of mechanisms to scope framework	F-32
4.2	Mechanism development and delivery	F-33
4.3	Legislative and policy requirements	F-35
4.4	Governance	F-35
4.5	Funding and financial impacts	F-36
5	Performance indicators	F-39
	Attachments	F-40
	Attachment A: Potential active transport enhancements	F-41
	Attachment B: Potential arterial road capacity improvements	F-43
	Attachment C: Potential bus service enhancements	F-45
	Attachment D: Value capture opportunities relating to land consolidation, acquisition and reservation	F-46
	Attachment E: Value capture opportunities relating to infrastructure levies	F-47
	Attachment F: Basis of cost estimates	F-48

1 Introduction

1.1 Background

The North East Link Authority (NELA) is committed to supporting the Victorian Government's Value Creation and Capture Framework (VCC Framework) to maximise social, economic and environmental value from infrastructure investment. The Framework introduces a consistent and comprehensive approach to value creation and capture to deliver broader Government objectives.

Under the VCC Framework, the North East Link Project (the project) is considered to be a high value construction project with potential for significant value creation and value capture opportunities. To identify and progress value creation and capture opportunities throughout the life of the North East Link Project, the VCC Framework requires the project to deliver the following:

- **VCC Statement of Intent** – an outline of the Victorian Government's policy objectives for the project, including broader objectives relevant to value creation and value capture
- **Strategic VCC Plan** – an outline of VCC opportunities proposed to be pursued, with indicative values identified
- **VCC Plan** – A VCC plan prepared for the full business case.

This VCC Plan represents the third step in exploring the opportunities in more detail and achieving the outcomes set out in the Statement of Intent and the Strategic VCC Plan.

1.2 VCC Statement of Intent

The VCC Statement of Intent sets out NELA's commitment to deliver policy outcomes in accordance with the VCC Framework's requirements. It identifies opportunities to create additional public value above and beyond what would ordinarily be achieved by the project, as well as opportunities to capture a portion of the value created by both the project and additional measures. These opportunities have been explored further to understand the potential of different mechanisms to contribute to value creation and capture outcomes for the project.

The value creation and capture opportunities and outcomes identified in the VCC Statement of Intent are summarised in the following sections.

1.2.1 Value creation outcomes

Opportunities for coordinated planning and delivery of transport service changes and active transport provision are expected to deliver the following core outcomes:

- Improved productivity, economic growth, employment and government revenue
- Improved access to jobs, education, services, affordable housing and recreation.

Land use, density and commercial opportunities, and opportunities for improved design and environmental outcomes, are expected to deliver the following value creation outcomes:

- Increased asset values, including land and business
- Unlocked commercial opportunities and development
- Increased social and environmental capital
- Enhanced public safety and amenity
- Improved design quality in the built environment.

1.2.2 Value capture outcomes

The value capture opportunity from user charging, alongside a focus on complementary land use and commercial projects, can deliver the following outcomes:

- Increased investment and accelerated project delivery
- Increased capacity to fund additional projects and services
- Improved value for money through innovative design, timing and scope infrastructure
- Beneficiaries contributing to project costs in a fair and equitable way
- Minimal public debt and safe AAA rating.

1.3 Purpose and scope

The VCC Plan outlined in this appendix builds upon the Strategic VCC Plan, which provided an initial analysis and assessment of potential VCC mechanisms for North East Link, along with a high-level implementation plan. The VCC Plan provides more detail about the strategic and project context, scope and potential benefits and costs of the VCC mechanisms considered in the Strategic VCC Plan. It also delves further into more practical issues associated with their implementation. The VCC Plan:

- Describes the mechanisms considered, their value creation and capture potential, possible dis-benefits, high level scope items, indicative costs, key risks and opportunities, and relevant stakeholders
- Identifies where each mechanism sits in the project scope framework set out in the *DEDJTR Guidelines for Transport Modelling and Economic Appraisal in Victoria v3.03*
- Sets out a high-level program for advancing the development and operation of the mechanisms
- Provides an overview of the legislative and policy requirements for each mechanism
- Describes the proposed governance framework for ensuring that mechanisms deemed to have merit are developed and delivered
- Outlines the approach to integrate the mechanisms into each stage of project development
- Provides an initial estimate of the potential funding and financial impacts of the mechanism
- Lists the desired outcomes relevant to each mechanism, including measurable performance indicators.

Once approved, the VCC Plan will be used to guide and inform the ongoing identification and development of value creation and capture opportunities through the life of the project. It is not intended to substitute any part of the Victorian Government's investment management guidance and structure. Deeming a VCC initiative to have merit does not constitute an investment decision.

1.4 Limitations

The extent and reliability of the work undertaken to identify, scope and appraise the value creation and capture mechanisms considered in this VCC Plan reflect the current level of development of the North East Link Project.

At the time of preparing the VCC Plan, the North East Link Project is in early stages of development. While a Concept Design has been prepared to test the merits of the project through the business case process¹, further work will be required to confirm not only the geographic scope of the project, but also its engineering scope, as the project moves into the Reference Design phase. There is also a high likelihood that the final project solution may differ from the Reference Design. This makes it difficult to be confident about the nature of some of the value creation and capture opportunities that may be available, as well as the likely scope, costs and benefits of those opportunities. Accordingly, the value creation and capture opportunities presented in this plan are based on multiple assumptions that will almost certainly change as the project progresses.

Despite these limitations, the VCC Plan allows for indicative prioritisation of mechanisms and their further development and testing during subsequent phases of project development.

1.5 Status

The document will be considered by the Infrastructure Coordination Committee before being endorsed by the relevant committee of Cabinet. It is envisaged that following consideration of the findings and recommendations of the VCC Plan, approving committees² will provide direction to NELA about the value creation and capture mechanisms to be developed and tested as the project progresses through each phase of development.

1.6 Summary of recommendations

The value creation and capture mechanisms recommended in this plan have been developed through a VCC Working Group comprising NELA, the Department of Premier and Cabinet, the Department of Treasury and Finance, and Transport for Victoria, and in consultation with relevant Victorian Government stakeholders including Public Transport for Victoria, VicRoads, the Department of Environment, Land, Water and Planning, and the Victorian Planning Authority, as well as local government stakeholders. NELA will continue to work through the VCC Working Group and in consultation with stakeholders to act on those recommendations supported by approving committees.

The following is a summary of recommendations relating to the value creation mechanisms considered in this plan:

- **Recommendation 1:** North East Link Authority considers new active transport infrastructure in the North East Link business case as core project scope or as complementary to the project.
- **Recommendation 2:** North East Link Authority considers upgrades to Watsonia Station car park in the North East Link business case as core project scope.
- **Recommendation 3:** North East Link Authority considers complementary arterial road upgrades in the North East Link business case.
- **Recommendation 4:** North East Link Authority considers bus service enhancements in the North East Link business case as core project scope or complementary to the project.
- **Recommendation 5:** Through the development of the Reference Design, North East Link Authority works with Land Use Victoria and the Victorian Planning Authority to identify precincts where changes in accessibility afforded by North East Link may trigger reconsideration of the use of government landholdings. Where potential exists, North East Link Authority will work with Land Use Victoria to identify opportunities to leverage value from the project.

¹ The North East Link Concept Design is described in Chapter 6 of the business case.

² The relevant advisory and policy committees within Victorian Government departments overseeing the North East Link Project.

- **Recommendation 6:** North East Link Authority continues to investigate development opportunities arising from surplus landholdings outside of the business case process.
- **Recommendation 7:** North East Link Authority considers land bridges in the North East Link business case as core project scope. North East Link Authority continues to investigate opportunities to deck-over the rail line near Watsonia Station outside of the business case process.
- **Recommendation 8:** The Victorian Planning Authority and North East Link Authority work together to actively consider and monitor land use pressures arising from North East Link that may prompt land use change.
- **Recommendation 9:** North East Link Authority works with the Department of Premier and Cabinet to consider a framework for co-investment to deliver complementary infrastructure, planning or service initiatives that align with the North East Link Project and public value objectives.
- **Recommendation 10:** North East Link Authority continues to pursue opportunities to enhance social, economic and environmental outcomes through procurement conditions, in consultation with the Department of Treasury and Finance and other relevant stakeholders.
- **Recommendation 11:** North East Link Authority continues to pursue opportunities to innovate through procurement, in consultation with the Department of Treasury and Finance, and through the assessment of proposals. This may include testing some of the value creation and capture mechanisms outlined in this plan; for example, through scope options sought through project output specifications.
- **Recommendation 12:** North East Link Authority assesses procurement options, including private finance options, to identify which option best balances the control of project cost and risk against achieving project objectives and outcomes, consistent with Department of Treasury and Finance's Investment Lifecycle Guidelines.
- **Recommendation 13:** North East Link Authority continues to develop an Urban Design Strategy to inform project development and requirements.
- **Recommendation 14:** North East Link Authority continues to engage with and formally seek the advice of the Office of the Victorian Government Architect through the establishment of an Urban Design Advisory Panel.
- **Recommendation 15:** North East Link Authority continues to consider public realm improvements as part of the core project scope and complementary to the project.

The following is a summary of recommendations relating to the value capture mechanisms considered in this plan:

- **Recommendation 16:** North East Link Authority continues to investigate property sales and leases as a means of realising financial value created through land assets as part of the project development process.
- **Recommendation 17:** North East Link Authority continues to investigate property development rights as a means of realising financial or public value created through land assets as part of the project development process.
- **Recommendation 18:** The Victorian Planning Authority considers the case for progressing the development of an Infrastructure Contributions Plan related to a broader corridor strategy that integrates North East Link and complementary projects with other policies, plans and projects that would be needed to achieve desired growth outcomes.
- **Recommendation 19:** North East Link Authority works with the Department of Treasury and Finance and VicRoads to further define commercial revenue opportunities, such as advertising and telecommunications leases, available to North East Link.

1.7 Next steps

As the North East Link Project is at the business case development phase, VCC opportunities have been identified at a high level. Once approving committees have provided direction regarding the recommendations in this plan, NELA will implement mechanisms that fall within its remit through the business case and Reference Design phases. Mechanisms requiring further development and testing will be explored and progress on their development reported through existing governance channels for major projects.

During procurement, some mechanisms may be treated as scope options to be developed by tenderers, providing an additional opportunity to assess the merits of specific value creation and capture opportunities. As the project progresses through these phases, the scope of opportunities will become clearer; as a result, some opportunities may be discounted because they are no longer viable and new opportunities may be identified.

It is assumed that opportunities falling outside NELA's remit will be pursued through the relevant Victorian Government agencies following Ministerial direction.

2 Value creation mechanisms

The following actions and initiatives have been identified as having the potential to create value above and beyond what might ordinarily be achieved by a road project such as North East Link. They include value creation mechanisms identified in the government's VCC Framework, as well as additional mechanisms to enhance transport assets and services. The assumptions associated with the scope, costs and value creation potential of the mechanisms are indicative and conservative, consistent with the current level of project development. Value creation benefits have not been quantified at this stage and are presented mainly in qualitative terms.

2.1 Transport enhancement mechanisms

Transport enhancement mechanisms involve changing or increasing existing transport assets, improving integration between transport modes to improve overall benefits or expanding the number of beneficiaries from the core investment.

2.1.1 Active transport enhancements

North East Link will provide a significant increase in east-west road capacity, which will reduce traffic on several arterial and local roads near the project. The reduction in traffic at the commencement of operations of North East Link provides an opportunity to unlock road capacity and re-allocate it to initiatives that improve active transport. There are also opportunities to support the next generation of cycling facilities while improving connections to the existing shared path network in the north east.

Opportunities

The project may provide opportunities to construct new active transport infrastructure or upgrade existing infrastructure. Initial investigations have identified the following potential active transport enhancements:

- New on-road cycle paths to improve connectivity to and from key activity centres including Greensborough, Watsonia, La Trobe University and Heidelberg
- New walking and cycling connections to improve east-west connectivity along the North East Link alignment, integrating with the new cycle path running parallel to North East Link.
- New cycle paths along the Eastern Freeway, including providing a new direct connection at the western end of the freeway, and a grade separated crossing of Bulleen Road
- Extension of the cycleway along Bulleen Road south of the Eastern Freeway to complete a missing link in the network
- A new pedestrian crossing along Greensborough Road to reduce the severance and provide easier access to the Greensborough Road Path.

Potential treatments could include a combination of widening of existing footpaths, new off-road bicycle paths, line marking, road space allocation, local road widening, footpath extensions and possible grade separated crossings.

Potential active transport enhancements that are currently under investigation are shown in Attachment A.

Value creation potential

Active transport is an increasingly important and growing part of Victoria's transport network that helps to ease congestion on roads and public transport networks. It also supports the Victorian Government's 20-minute neighbourhood objectives by encouraging people to walk or cycle for short trips, which improves local amenity and accessibility, health and social wellbeing.

Possible dis-benefits

No major dis-benefits identified.

Indicative cost

Redacted – commercial-in-confidence

Risks and opportunities

No major risks identified. There are opportunities to connect Melbourne's broader strategic cycling corridors and to address existing impediments to cycling, such as physical severance and worsening on-road cycling conditions.

Key stakeholders

Local government, VicRoads, Transport for Victoria.

Recommendation

North East Link Authority considers new active transport infrastructure in the North East Link business case as core project scope or as complementary to the project.

2.1.2 Public transport facility upgrades

There is a growing need to improve access to public transport in the north east suburbs, particularly access to metropolitan rail services. As part of the Level Crossings Removal Program, the Victorian Government is investigating investments to deliver additional public transport capacity and enhanced connectivity for the Hurstbridge and South Morang/Mernda rail lines. This includes duplication of the Hurstbridge line past Greensborough, more frequent peak rail services and improved bus routes/frequency between the Hurstbridge rail line and the La Trobe National Employment and Innovation Cluster (NEIC). North East Link provides opportunities to expand the benefits of these investments by improving access to railway stations in the north east.

Opportunities

There is an opportunity to include additional car parking at Watsonia Station to mitigate any losses due to the alignment of North East Link and provide for new public transport users. The project may provide for construction of a car park structure of approximately 6,500 square metres north of the existing station platform on the existing VicTrack car parking site.

Value creation potential

Benefits associated with improved access to the station for public transport users. This investment is expected to benefit users who live nearby the station and existing users of public transport.

Possible dis-benefits

No major dis-benefits identified.

Indicative cost

Redacted – commercial-in-confidence

Risks and opportunities

No key risks identified. There may be an opportunity to coordinate works with the Level Crossings Removal Authority (LXRA) as part of the Hurstbridge Line Upgrade Stage 2 project.

Key stakeholders

Transport for Victoria, LXRA, local government.

Recommendation

North East Link Authority considers upgrades to Watsonia Station car park in the North East Link business case as core project scope.

2.1.3 Increased arterial road capacity

VicRoads continues to look at ways to make the best use of existing transport infrastructure, provide targeted upgrades of the road network and plan for new links to address gaps and deficiencies. North East Link will provide additional capacity in the north east to accommodate cross-city and orbital journeys, allowing for further enhancement and prioritisation of road capacity to maximise the efficient movement of people and goods. This is particularly relevant to areas within the north east corridor that currently experience road congestion, as well as the northern growth corridor where transport infrastructure is struggling to keep up with population growth.

Opportunities

Opportunities include increasing capacity on key arterial/feeder routes to North East Link to support the use of the new roadway, mitigating dis-benefits that may occur on other parts of the network and further expanding Melbourne's freeway network:

- Bulleen Road: works to address road safety issues arising from access constraints to and from local schools and social clubs along Bulleen Road
- Rosanna Road: safety improvements for drivers, residents, pedestrians and cyclists along Rosanna Road
- Diamond Creek Road: works to improve access to North East Link by reducing traffic congestion at the roundabout and along Diamond Creek Road.

In addition to enhancing the network around the north east, there is also an opportunity to leverage the significant investment in road capacity that North East Link will provide by constructing the Outer Metro Ring Road (E6). Combined with North East Link, the E6 would fundamentally transform accessibility in Melbourne's outer north and facilitate development in the northern growth areas.

Initial scoping of this opportunity proposes:

- A new freeway connection from the M80 to the Hume Hwy, comprising a two-lane freeway in each direction

- Upgrades to widen adjacent arterial roads
- Widening the M80 between E6 and North East Link to allow for new collector-distributor lanes.

Opportunities to increase arterial road capacity that are currently under investigation are shown in Attachment B.

Value creation potential

Increasing the capacity of key arterial feeder routes in close proximity to North East Link will provide direct transport benefits including travel time savings, increased travel reliability benefits and reductions to vehicle operating costs (VOCs) due to increased traffic flows. The main beneficiaries would be local road users (commuters and freight operators).

Benefits of constructing the E6 are estimated to be in the order of \$3–4 billion in present value terms.³ The E6 could also provide an additional source of tolling revenue. The E6 would deliver an efficient transport option for the northern growth corridor that would accelerate development in the north to meet growing demand for housing, support the feasibility of other projects such as the Beveridge Interstate Freight Terminal and boost productivity by better connecting people, freight and businesses across Melbourne and regional Victoria

Possible dis-benefits

Potential for increased traffic on arterial roads to reduce amenity and local access for nearby residents.

Indicative cost

Redacted – commercial-in-confidence

Risks and opportunities

Risks would be consistent with those of a major road project.

Key stakeholders

Transport for Victoria, VicRoads, local government.

Recommendation

North East Link Authority considers complementary arterial roads upgrades in the North East Link business case.

³ Based on preliminary and indicative cost benefit analysis (CBA) of Zenith model sensitivity outputs undertaken as part of ongoing demand modelling and appraisal for North East Link.

2.1.4 Bus service enhancements

Changes to travel patterns due to the construction of North East Link create risks and opportunities to existing and potential bus services. Increased traffic along some routes will require additional bus priority measures to sustain existing performance levels. There are also opportunities to improve service performance and attract new bus users by re-allocating road space or extending existing road infrastructure by widening. The project may also provide opportunities to construct new bus infrastructure such as bus stop shelters and bus lanes, and reconfigure bus interchanges to support the long-term transport policy objective of successive Victorian Governments to service the population catchment north of the Eastern Freeway.

Opportunities

NELA is investigating initiatives to enhance bus services in the north east. These initiatives may form part of the core project scope or be delivered independently. Potential improvements currently being considered are outlined below:

- There may be the opportunity to re-allocate road space or provide additional road space to bus services along sections of the road network that currently carry bus services and that will experience a decrease in traffic volumes because of North East Link. Routes identified for potential upgrades include Grimshaw Street, Diamond Creek Road, Fitzsimmons Lane, Main Road, Elder Street, Banksia Street and Manningham Road.
- Opportunities are available to improve overall bus services and connectivity through the north east, including:
 - enhancing existing Doncaster Area Rapid Transit (DART) services
 - reconfiguring existing orbital SmartBus routes to adapt to changes in traffic conditions and provide greater connectivity to activity centres and public transport interchanges
 - providing additional express bus services between activity centres and transport nodes in the north east.

In addition to enhancing bus services within the north east, there is also an opportunity to significantly enhance public transport services along the Eastern Freeway by providing infrastructure for a future Doncaster Busway service. Initial scoping of this opportunity proposes:

- Dedicated bus lanes from Hoddle Street to Doncaster Road
- Bus stations at key interchanges.

Potential bus service enhancements that are currently under investigation are shown in Attachment C.

Value creation potential

Benefits associated with possible mode shift from car to bus, including VOC benefits, improved bus travel time reliability, environmental externality benefits, improved local amenity and accessibility, and improved health and wellbeing due to increased rates of public transport use. This is expected to benefit existing bus users and residents living nearby the bus routes.

Benefits of providing the Doncaster Busway are estimated to be in the order of \$250-500 million in present value terms.⁴ Fast, efficient and reliable public transport running along the Eastern Freeway corridor will transform public transport access for populations adjacent to the freeway, which has been a long-term transport policy objective of successive Victorian Governments.

⁴ Based on preliminary and indicative cost benefit analysis (CBA) of Zenith sensitivity outputs undertaken for as part of ongoing demand modelling and appraisal for North East Link.

Possible dis-benefits

No major dis-benefits identified.

Indicative cost

Redacted – commercial-in-confidence

Risks and opportunities

No major risks identified.

Key stakeholders

Transport for Victoria, Public Transport Victoria, VicRoads, local government.

Recommendation

North East Link Authority considers bus service enhancements in the North East Link business case as core project scope or complementary to the project.

2.2 Property and planning mechanisms

Property and planning mechanisms relate to opportunities presented by the project that involve planning changes, land acquisition and assembly, and the use of planning instruments to enhance public or commercial value.

2.2.1 Strategic Land Use Assessment

The Victorian Government Land Use Policy (due to be finalised in December 2017) provides a framework for maximising the public value of government land. Under the policy, public value is defined as land management decisions that maximise social, economic, environmental and intergenerational outcomes. The policy also provides principles to assist decision-makers maximise public value from land use decisions. Within this policy framework, there is potential to use government land within the project catchment area to deliver greater public value to the community.

Opportunities

Using the Land Use Policy, the project team will work with key government land agencies to assess government land in the project catchment. Options to deliver greater public value from surplus or underused government land will be identified and provided to the relevant decision-makers. Once a detailed project option has been determined – and depending upon the scale of government land and project impacts – there may be an opportunity for Land Use Victoria to undertake a Strategic Land Use Assessment to consider the affected government land and opportunities to maximise public value.

Value creation potential

As an example, this mechanism could consider surplus DHHS Director of Housing assets. DHHS is currently leveraging the value of surplus assets across a number of sites in Melbourne. The re-zoning of Public Use Zone (PUZ) surplus land to an appropriate residential zoning would create a premium in land value of about 30 to 40 percent. Alternatively, this mechanism could consider how existing State assets may be repurposed to meet the increased demand for public services (such as health and education) arising from population growth enabled by the improved accessibility delivered by North East Link.

Possible dis-benefits

No major dis-benefits identified.

Indicative cost

Costs are assumed to fall within the operational budgets of relevant agencies/authorities.

Risks and opportunities

Land Use Victoria do not capitalise on the opportunity the project provides. Agencies may be disinclined to relinquish landholdings.

Key stakeholders

Land Use Victoria, Department of Treasury and Finance, Department of Land, Water and Planning, VicRoads, local government.

Recommendation

Through the development of the Reference Design, North East Link Authority works with Land Use Victoria and the Victorian Planning Authority to identify precincts where changes in accessibility afforded by North East Link may trigger reconsideration of the use of government landholdings. Where potential exists, North East Link Authority will work with Land Use Victoria to identify opportunities to leverage value from the project.

2.2.2 Land consolidation acquisition and reservation

The North East Link alignment will traverse parts of dense urban areas and will require the acquisition of some private land holdings to enable construction of the project. There is potential to consolidate land parcels and acquire and reserve strategic parcels to enable development and infrastructure opportunities.

Opportunities

An initial estimate of surplus land post-acquisition has been undertaken. Based on this estimate, between 60,000 and 80,000 square metres of land may be suitable for consolidation into parcels available for divestment to the private sector. These include sites located in the following areas:

- The car park area adjacent to Watsonia station between the Hurstbridge Rail line and the proposed North East Link, Watsonia
- Part of the industrial precinct at the southern portal of North East Link, generally bound by Bridge Street (north), Bulleen Road (east) and public open space (Bulleen Park, west and south) within the suburb of Bulleen
- Between the flyovers connecting North East Link to the Eastern Freeway at the corner of Bulleen Road and Thompsons Road.

A high level assessment of these individual site opportunities based on consideration of surrounding land uses, planning constraints and market trends indicates that these sites may provide opportunities for commercial, retail, residential and other uses. This includes around 12,000 square metres of mixed use at Watsonia Station, 33-54,000 square metres of commercial or mixed use residential at Bridge Street and 15,000 square metres of service station/fast food at Bulleen Road and the Eastern Freeway.

The assessment did not consider alternative uses that may lead to enhanced public value, such as recreation and community uses, social housing or uses related to the delivery of health or human services.

In addition to identifying sites that may be suitable for future commercial or residential development, an assessment was undertaken of further opportunities for land assembly by purchasing land through market processes. The assessment concluded that, prima facie, there are no opportunities to enhance development outcomes through additional land purchases.

A review of value capture opportunities related to land consolidation, acquisition and reservation is provided in Attachment D.

Value creation potential

If these land parcels are provided to the market with appropriate planning controls and the support of a Development Plan Overlay (DPO) that provides yield certainty to the development sector, a significant premium in land values would be created.

Redacted- commercial-in-confidence

Possible dis-benefits

Depending on the nature of any future development, dis-benefits may include increased pressure on infrastructure, transport and community assets.

Indicative cost

Costs are assumed to fall within the North East Link Project budget, unless additional land is identified that would enable strategic land consolidation for integrated development.

Risks and opportunities

Reference Design fails to enable future development opportunities. Local government or community opposition to any proposed development. Resistance to commercialisation of land acquired by the State for public purpose, but surplus to the project in operation. Delay to, or failure to gain, planning approval.

Key stakeholders

Land Use Victoria, Department of Land, Water and Planning, local government.

Recommendation

North East Link Authority continues to investigate development opportunities arising from surplus landholdings outside of the business case process.

2.2.3 Land creation

The northerly sections of the North East Link alignment are proposed to be in cutting. While existing road access will be provided via bridges, the remaining sections would form visual and physical barriers for pedestrians. There is potential for the project to create new land over the cutting sections of the roadway for development or community uses.

Opportunities

There is an opportunity to provide landscaped land bridges over the cutting sections of North East Link to improve amenity and local accessibility. The scope of this opportunity would include widening the proposed North East Link bridges or installing land bridges of approximately 80 metres in length at four locations between Watsonia Road and Lower Plenty Road. This would create between 25-30,000 square metres of additional public open space for surrounding communities.

A further opportunity exists to create a large contiguous development site by decking over the rail line near Watsonia Station and making use of the existing car park between the rail link and Greensborough Road. The decking would create additional land that would allow flexibility in the type of development that could occur over one of the sites mentioned above, in terms of community or other policy outcomes.

Value creation potential

Urban parks have long been recognised as major contributors to the physical and aesthetic quality of city neighbourhoods, as places of recreation, and as visual assets to communities. Parks are also a key aspect of urban amenity that contributes to high levels of liveability within the built environment.

Decking over Watsonia Station to create a larger development site could help unlock greater value from the smaller land parcels by better positioning these properties for development and allowing for a wider range of development options.

Possible dis-benefits

No major dis-benefits identified.

Indicative cost

Redacted – commercial-in-confidence

Risks and opportunities

Provision of land bridges on some section of North East Link may raise expectations that additional land bridges are provided or that the entire section cutting section of the project is covered. Interface risk with rail operations for decking over Watsonia Station. Parking numbers increase to the point where it impacts on development viability. Unable to acquire adjacent properties. Lack of local government support.

Key stakeholders

Department of Treasury and Finance, Department of Land, Water and Planning, local government.

Recommendation

North East Link Authority considers land bridges in the North East Link business case as core project scope. North East Link Authority continues to investigate opportunities to deck-over the rail line near Watsonia Station outside of the business case process.

2.2.4 Planning initiatives

Accessibility improvements have the potential to drive up demand for residential and commercial development in locations adjacent to the project. These locations may become candidates/sites for intensification of use or urban renewal, which may benefit from changing existing planning controls to encourage different types of land use to expand project benefits.

To estimate the scale of additional demand for housing and commercial property that may occur due to North East Link, a land use and transport interaction analysis was undertaken. The analysis modelled potential changes in land use demand arising from improved accessibility within the project's area of influence, as well as the capacity for existing planning frameworks and controls to accommodate future growth. The results of the analysis indicate that there is likely to be sufficient capacity within the area of influence to meet modelled demand for growth and land use change. However, there may be opportunities for planning authorities to revise and update existing planning strategies and schemes (such as refining precinct structure plans or rezoning) to reflect future transport conditions.

Recommendation

The Victorian Planning Authority and North East Link Authority work together to actively consider and monitor land use pressures arising from North East Link that may prompt land use change.

2.2.5 Third party incentives

There is potential to use financial, planning or other incentives to encourage third parties to partner with government to deliver complementary infrastructure, planning or service initiatives. These value creation mechanisms could be aligned with the voluntary contributions value capture mechanism (discussed in 3.2 User and beneficiary mechanisms), whereby businesses or other beneficiaries co-invest with other government agencies to deliver enhanced outcomes.

Opportunities

The Victorian Government could provide a specific vehicle for co-investment by local government authorities, State Government agencies, institutions and the private sector. Contributions by the State could be in the form of financial, planning or other incentives for third parties to deliver complementary initiatives that leverage the opportunities and benefits presented by North East Link. This could be a form of 'market led proposal', whereby third parties identify service or infrastructure opportunities that meet a community need (within a clearly defined framework) and partner with government to fund these opportunities. For example, a municipality may approach the State to share the funding of additional landscaping or community facilities within one of the land bridges described above. Similarly, a group of private businesses might seek co-funding for public realm upgrades in commercial areas.

Value creation potential

The value creation potential of this mechanism would depend upon the nature of any proposed investment. These could include commercial opportunities, development, improved local amenity and social benefits that accrue to businesses or residents or both.

Possible dis-benefits

No major dis-benefits foreseen.

Indicative cost

Commensurate with co-investment opportunities to be funded by the State.

Risks and opportunities

In the absence of a clear investment framework, potential equity issues could arise in that investment may not be directed to areas of greatest need. Challenge in aligning programs and budgets of other agencies. Administration of contract to ensure development outcomes are met.

Key stakeholders

Department of Premier and Cabinet, Department of Treasury and Finance, VicRoads, Transport for Victoria, Public Transport Victoria, Department of Land, Water and Planning, local government, Victorian Planning Authority.

Recommendation

North East Link Authority works with the Department of Premier and Cabinet to consider a framework for co-investment to deliver complementary infrastructure, planning or service initiatives that align with North East Link Project and public value objectives.

2.3 Procurement, finance and ownership mechanisms

Procurement, finance and ownership mechanisms relate to opportunities presented by the project that involve the use of commercial and legal instruments and competitive markets to deliver greater value for money, realise positive social and economic change, and encourage innovation.

2.3.1 Procurement conditions for infrastructure

The project provides the opportunity to link procurement conditions to achieve social procurement policy objectives such as industry and skills development, preferential procurement or employment outcomes, open space, community facilities or resilience of infrastructure to climate change.

Opportunities

Opportunities may include procurement documentation, conditions that support the Victorian Industry Participation Policy (VIPPP) and Major Projects Skills Guarantee objectives such as specifying the percentage of construction materials to be supplied from local suppliers and the percentage of labour hours to be spent on the project spent by apprentices, trainees and engineering cadets within the Victorian building and construction industry.

As the project is developed, North East Link Authority will work with the Department of Economic Development, Transport, Jobs and Resources to identify the minimum requirements to achieve policy objectives for:

- Victorian Industry Participation Policy
- Major Projects Skills Guarantee
- Aboriginal employment target
- Local industry development plans
- Workforce development strategies
- Social procurement strategies.

Value creation potential

Increased local economic growth, increased social wellbeing and improved local amenity arising from procurement conditions are expected to benefit local workers, suppliers and businesses across Melbourne and Victoria. The potential benefits of realising social and economic policy objectives cannot be estimated at this time; however, tenderers will be requested to identify their ability to meet these requirements and estimate the value created. Any quantification will be identified through the tender evaluation process, with tenderers encouraged to exceed minimum government requirements.

Possible dis-benefits

No major dis-benefits identified.

Indicative cost

No additional costs anticipated.

Risks and opportunities

No major risks identified.

Key stakeholders

Department of Environment, Land, Water and Planning, Department of Economic Development, Jobs, Transport and Resources, Department of Treasury and Finance, Victorian Planning Authority, local government.

Recommendation

North East Link Authority continues to pursue opportunities to enhance social, economic and environmental outcomes through procurement conditions, in consultation with the Department of Treasury and Finance and other relevant stakeholders.

2.3.2 Innovation through procurement

The sheer scale of government procurement can stimulate the demand-side of the ‘innovation equation’. As one of the biggest customers in the Victorian economy, the State Government has the power to demand the production of innovative products and services. A project as significant as North East Link presents an opportunity to harness private sector ideas and know-how by using output specifications in procurement to deliver better value assets and optimise service outcomes.

Opportunities

The procurement process for North East Link may structure the contract specification to allow for innovation on the proposed project design and scope, and consideration of alternative approaches to standard materials, workmanship and constructability that do not detract from identified project outcomes. For example, a number of the value creation and capture mechanisms identified in this plan may be suitable for inclusion as additional scope items to be considered by tenderers and assessed by the State. Additionally, the Victorian Department of Treasury and Finance provides detailed guidance in relation to procurement processes that foster innovation, such as early engagement with the market, interactive tender processes and clear tender documentation with respect to innovation objectives and constraints.

Value creation potential

Innovative solutions can increase project benefits or reduce costs across the project life cycle, improve project delivery and provide for more efficient construction practices. This is expected to benefit government, users of the project and the community. Quantifying the additional value created through innovations proposed at the procurement phase will be identified through the bid evaluation process.

Possible dis-benefits

No major dis-benefits identified.

Indicative cost

Costs are assumed to fall within the North East Link project budget.

Risks and opportunities

Projects that feature high levels of innovation in ways that might be deemed pioneering tend to present greater risks. Opportunity to engage with the market through a market sounding process to identify innovation opportunities for the project.

Key stakeholders

Department of Treasury and Finance.

Recommendation

North East Link Authority continues to pursue opportunities to innovate through procurement, in consultation with the Department of Treasury and Finance, and through the assessment of proposals. This may include testing some of the value creation and capture mechanisms outlined in this plan; for example, through scope options sought through project output specifications.

2.3.3 Private finance and ownership

The use of private finance and ownership models (such as PPPs) or contracting private sector managers to finance construction has the potential to maximise service levels, improve efficiency and reduce ongoing costs; for example, through whole-of-life cycle infrastructure design. This is because capital markets provide the private sector with 'signals' through financial supply decisions that encourage and provide incentives for the efficient and sustainable use of capital. When combined with explicitly stated public policy objectives, the private sector (as asset owners and operators) is able to respond efficiently to market demand by undertaking activities that are valued by customers and that maximise public benefit.

Opportunities

As part of business case development, the project will identify and assess a range of procurement models for delivery to determine a preferred approach that best meets the State's procurement objectives and reflects the characteristics of the project. The procurement options assessment will incorporate key findings from prior projects with similar characteristics and experience in government procurement and will be informed by knowledge of the current market, gathered by market sounding interviews of major constructors, financiers/sponsors and operators conducted in August 2017.

Value creation potential

Private finance and ownership is expected to lead to cost efficiencies while optimising service levels, and lead to greater budget certainty. For example, Peninsula Link used an Availability PPP procurement model where payments are linked to output specifications and performance outcomes. The project has performed strongly since operations commenced in 2031, with minimal performance abatements. Private finance and ownership models are expected to benefit government, users of the project and the community.

The value created will be quantified using a Public Sector Comparator (PSC) should the PPP procurement approach be adopted by the State. The purpose of the PSC is to provide governments with a quantitative measure of the value for money it can expect from accepting a private sector proposal to deliver the project, compared to public sector delivery.

Possible dis-benefits

No major dis-benefits identified.

Indicative cost

Costs are assumed to fall within the North East Link Project budget.

Risks and opportunities

If the expertise in the PPP lies heavily on the private side, the government is at an inherent disadvantage. For example, it may be unable to adequately assess the proposed costs of a proposal.

Key stakeholders

Department of Treasury and Finance.

Recommendation

North East Link Authority assesses procurement options, including private finance options, to identify which option best balances the control of project cost and risk against achieving project objectives and outcomes, consistent with Department of Treasury and Finance's Investment Lifecycle Guidelines.

2.4 Design mechanisms

Design mechanisms relate to opportunities presented by the project that involve the use of urban, landscape, architectural and engineering design approaches to deliver enhanced amenity and aesthetic outcomes and greater value for money.

2.4.1 Urban design

There is opportunity for the project to implement design-led initiatives by applying an Urban Design Strategy to promote best practice urban design and quality, and to optimise project outcomes. This strategy would provide urban design direction for the project and guide design development via an integrated engineering and urban design approach.

Opportunities

An Urban Design Strategy is being developed by NELA, in consultation with identified stakeholders. The Urban Design Strategy will include overarching principles and urban design objectives that will outline what the project should achieve. These will be supported by detailed requirements and qualitative benchmarks that will form the performance requirements around which the urban design proposals will be developed and evaluated. The Urban Design Strategy will encourage collaborative, multi-disciplinary, integrated design thinking to deliver maximum project benefits and leave a positive legacy.

Value creation potential

Incorporating urban design principles and approaches at the outset will help to achieve the highest levels of land use integration, built form, connectivity and amenity. The expected beneficiaries are the local community.

Possible dis-benefits

No major dis-benefits identified.

Indicative cost

Costs are assumed to fall within the North East Link Project budget.

Risks and opportunities

No major risks identified.

Key stakeholders

Local government, Office of the Victorian Government Architect, Department of Environment, Land, Water and Planning, Melbourne Water, Transport for Victoria.

Recommendation

North East Link Authority continues to develop an Urban Design Strategy to inform project development and requirements.

2.4.2 Urban Design Review Panel

The project will almost certainly impact on the urban environment in existing residential communities in the north east. In the interest of the Victorian public, there is considerable merit in seeking independent expert advice from the Office of the Victorian Government Architect (OVGA) on how to improve design quality for the project.

Opportunities

Representatives from the OVGA have already been involved in establishing the initial thinking for an Urban Design Strategy for the project. This has included attendance at workshops and the development of urban design principles and objectives.

The OVGA will also play a key role in the Urban Design Advisory Panel (UDAP). The UDAP will provide advice during the project's Reference Design, tender and design development phases to guide the development of high quality urban design outcomes. The UDAP will guide the development of the urban design requirements of the State, support the selection of the design team during the tender process and undertake guidance workshops during the tender and design development phases.

Value creation potential

Better urban design outcomes can add significant value to the project in economic, social and aesthetic terms by mitigating undesirable consequences, increasing or improving amenity and enhancing local identity. This is expected to benefit users of North East Link, as well as surrounding communities.

Possible dis-benefits

No major dis-benefits identified.

Indicative cost

Costs are assumed to fall within the North East Link project budget.

Risks and opportunities

No major risks identified.

Key stakeholders

Local Government; Office of the Victorian Government Architect; Department of Environment, Land, Water and Planning; Office of the Coordinator General.

Recommendation

North East Link Authority continues to engage with and formally seek the advice of the Office of the Victorian Government Architect through the establishment of an Urban Design Advisory Panel.

2.4.3 Public realm improvements

North East Link may provide opportunities to transform the character of some existing roads and activity centres in the north east from heavily trafficked areas to locations focused more on providing a 'place' function that enhances amenity, encourages walking and cycling, and reinforces local identity. Public realm improvements can also enhance the experience of drivers using the roadway and encourage appropriate driver behaviour.

Opportunities

Enhancements to cycling and pedestrian corridors will be explored such as improved links, crossings and landscaping. There may also be opportunities within the corridor to connect and align with broader open spaces and the local environment. Public realm improvements will also be used to improve driver experiences and encourage appropriate driver behaviour through road geometry and visual cues provided by the project's landscape design. Other improvements may include planting, improved paths, public furniture and wayfinding infrastructure.

Value creation potential

Public realm interventions can be important in their own right, improving wellbeing for residents by creating more pleasant and functional streets and public spaces. They can also boost overall business activity in commercial areas by attracting more visitors to a previously less attractive street, which could also lead to modest increases in local business investment.

Possible dis-benefits

No major dis-benefits identified.

Indicative cost

Costs are assumed to fall within the North East Link Project budget. Urban realm improvements associated with other proposed mechanisms are assumed to form part of the total costs of those mechanisms (for example, the road upgrades outlined in 2.1 Transport enhancement mechanisms).

Recommendation

North East Link Authority continues to consider public realm improvements as part of the core project scope and complementary to the project.

3 Value capture mechanisms

The following actions and initiatives have been identified as having the potential to generate alternative revenue streams or other financial value for government, which could assist in funding North East Link. The assumptions associated with the scope, costs and value capture potential of the mechanisms are indicative and conservative, consistent with the current level of project development.

3.1 Property and development mechanisms

Property and development mechanisms relate to the financial realisation of some of the property and planning based value capture opportunities previously discussed. This can be achieved through mechanisms such as sales and leases, integrated development (as part of the North East Link Project) and infrastructure contributions.

3.1.1 Property sales and leases

This mechanism proposes the sale or lease of land that has been acquired but is surplus to project requirements and government landholdings that have been assessed as being surplus to service needs. Assuming land assets are sold by a public agency, the State would capture 100 per cent of the value, including any value uplift from 'up-zoning'.

Opportunities

A preliminary assessment of potential surplus land indicates between 60,000 and 80,000 square metres of land could be available for commercial gain, consistent with an indicative highest and best use assessment. Activities likely to be associated with the sale of government landholdings include:

- Planning and environmental approvals processes to maximise realised land value
- Pre-sale land development requirements, including site preparation, access and servicing
- Sale of land using a public process such as a public auction, public tender or public Expression of Interest or Registration of Interest.

Value capture potential

Redacted – commercial-in-confidence,⁵

Possible dis-benefits

Loss of land for future public uses/community space and other purposes. The preliminary assessment undertaken for the business case assumes that around 40 percent of surplus land is retained for public use.

Indicative costs

Costs associated with bringing land to market, such as professional fees, site improvement, servicing, insurance and transaction costs. These are likely to vary significantly depending upon site conditions.

⁵ *Redacted – commercial-in-confidence*

Risks and opportunities

There may be reputational risks should the community respond negatively to the sale of land that has been compulsory acquired for public purposes. Access constraints could reduce the value of sites. Unforeseen remediation requirements may add to site preparation costs.

Key stakeholders

Department of Environment, Land, Water and Planning, relevant government landowners, Department of Treasury and Finance.

Recommendation

North East Link Authority continues to investigate property sales and leases as a means of realising financial value created through land assets as part of the project development process.

3.1.2 Property development rights

This mechanism is an alternative to selling off surplus acquired land that is deemed appropriate for residential or commercial use. This mechanism involves the State granting property development rights to the North East Link Project contractor (Project Co.) to offset the cost of the concessions payable by government. As previously noted, between 60,000 and 80,000 square metres of acquired land is estimated as being surplus to reservation requirements for the project at this time.

Opportunities

This initiative assumes that the State grants rights to Project Co. to develop the site consistent with a highest and best use assessment, and engages with Project Co. during project development and construction to ensure development outcomes are consistent with the State's objectives. The assessment conducted for the business case assumes that the sites would be sold by Project Delivery Agreement (PDA) with title transfer to the development partner post-project, and that Project Co. obtains revenue equivalent to the residual land value of the development opportunity.

Value capture potential

Redacted – commercial-in-confidence

Possible dis-benefits

Depending on the use and scale of any proposed developments, there may be negative amenity impacts on adjacent households.

Indicative costs

Costs associated with bringing land to market, such as professional fees, site improvement, servicing, insurance and transaction costs. These are likely to vary significantly depending upon site conditions, and may be borne by either the State or the contractor.

Risks and opportunities

Project Co. may not be disposed to or have the necessary skills to engage in property development activity if this is not its core business. Alternatively, there may be pressure for Project Co. to 'over-develop' sites to maximise revenues. NELA would need to be appropriately resourced to ensure planning and development requirements and outcomes are managed effectively. Similar to sales and leases, there may be reputational risks associated with the commercial development of land acquired for public purposes.

Key stakeholders

Department of Environment, Land, Water and Planning, Victorian Planning Authority, local government authorities.

Recommendation

North East Link Authority continues to investigate property development rights as a means of realising financial or public value created through land assets as part of the project development process.

3.1.3 Infrastructure levies on development

North East Link and any complementary projects being considered for delivery as part of an overall corridor strategy have several value capture options available in relation to levies on development under existing Victorian Government infrastructure funding policies. These options – which include Infrastructure Contributions Plans (ICPs), Development Victoria (Urban Renewal Authority) charges and the Growth Area Infrastructure Contribution – operate under different governing frameworks and have varying applicability to the North East Link Project.

Opportunities

Funding mechanisms available under the system of ICPs are considered to be the primary option available given the nature and location of the North East Link Project. This system has been subject to significant reform in recent years to standardise and simplify the application of development levies to fund the essential infrastructure required for growing communities.

A key feature of ICPs is that it is likely only certain elements of the North East Link Project could be effectively funded from ICPs where there is a strong nexus and need for infrastructure to support development in the corridor. This could include local interchanges, arterial upgrades, urban realm improvements and other local infrastructure works (such as shared use paths), where use by the local community will represent a high proportion of overall use. In contrast, the main trunk infrastructure of the North East Link Project will be heavily used by the wider community and is to be funded through the imposition of user tolls and other government contributions.

An initial assessment of the potential to fund a package of North East Link Project works has been completed by the project team.

Redacted – commercial-in-confidence

While there may be a positive revenue potential and policy rationale for ICPs, their implementation is not straightforward and they carry risks and issues that need to be considered. It is important to recognise that any ICP would require collaboration with local councils and multiple planning agencies, and that implementation would require changes to planning schemes to establish the funding mechanism (that is, identifying ICP arrangements and the infrastructure it will fund in the relevant planning scheme).

As ICPs focus on the provision of infrastructure to support planned developments and growth in a corridor, the approach would require aligning Victorian Government and local government strategies along the corridor as part of an integrated land use and infrastructure plan that identifies supporting investments – including North East Link – as key enablers for the outcomes of the plan. As such, to take ICPs forward, they would need to be part of a broader corridor strategy that is beyond NELA's remit.

A review of value capture opportunities relating to infrastructure levies is provided in Attachment E.

Value capture potential

Redacted – commercial -in-confidence.

These rates are comparable with other development contributions across Melbourne and are at a level that the market could bear without distorting investment. This suggests there is merit in continuing to explore ICPs as a possible funding mechanism for the North East Link Project, particularly the complementary projects that are a critical part of unlocking development capacity in the corridor.

Possible dis-benefits

The principles governing the fairness and applicability of any given type of levy can vary considerably.

Indicative costs

Costs are assumed to fall within the operational budgets of relevant agencies/authorities.

Risks and opportunities

Depending upon the type of levy imposed, there could be implications for how the ICPs are implemented and acceptability by those responsible for paying. There may be challenges around what can be funded through certain types of infrastructure contributions. Levy rates set too high discourage development. Infrastructure Contributions Plan not proven in existing urban context. Lack of overarching corridor strategy for the implementation of ICPs. Lack of coordination between planning agencies and local government.

Key stakeholders

Department of Treasury and Finance, Department of Environment, Land, Water and Planning, Victorian Planning Authority, local government authorities.

Recommendation

The Victorian Planning Authority considers the case for progressing the development of an Infrastructure Contributions Plan related to a broader corridor strategy that integrates North East Link and complementary projects with other policies, plans and projects that would be needed to achieve desired growth outcomes.

3.2 User and beneficiary mechanisms

User and beneficiary mechanisms relate to opportunities that involve payment by users of North East Link and voluntary contributions by businesses that might benefit in some way from the project or that might partner with government to pursue project enhancements that lead to increased public outcomes.

3.2.1 Road tolls

Users of North East Link will benefit from the provision of a high capacity road between the M80 and the Eastern Freeway. Imposition of a toll, whereby users are charged a portion of the benefit they receive from the service provided by the road (primarily travel time, reliability and vehicle cost savings), would capture some of the benefit and further ease congestion. The revenue (captured value) can then be used to help offset the capital and operating costs of the investment through concession revenues paid by the toll road operator.

Tolling is being considered separately as part of the project's commercial strategy.

3.2.2 Voluntary contributions by business beneficiaries

A number of businesses and other entities may benefit considerably from the accessibility improvements provided by the North East Link Project. For example, La Trobe University, the Melbourne Wholesale Fruit Vegetable and Flower Market and major shopping centres, such as Northlands, will have access to larger customer and supplier markets and more efficient supply chains. Such beneficiaries may be willing to contribute to additional transport service enhancements or other investments to augment benefits where Third Party incentives through co-investment are provided by the State (as outlined in section 2.2.5).

Opportunities

The State Government would enter into agreements with key stakeholders for co-investment in mutually beneficial service enhancements or other value creation mechanisms. Key beneficiaries will be engaged to explore their interest in co-investing in transport service enhancements and other investments to augment benefits. Opportunities will be scoped, costed and assessed to determine whether they have merit and are aligned with the North East Link Project Objectives and VCC policy objectives.

Value capture potential

Depending on the nature of the agreement and the number of parties to the agreement, contributions could range from 10 to 50 percent of the total co-funded investment.

Possible dis-benefits

Businesses without the financial means to make voluntary contributions would be at a disadvantage.

Indicative costs

Subject to the scope of the project.

Risks and opportunities

Potential for high transaction costs and administrative complexity. Third parties create need for and commitment to additional investments, but do not follow through on funding.

Key stakeholders

Department of Treasury and Finance, Transport for Victoria, local government, Public Transport Victoria, Department of Economic Development, Jobs, Transport and Resources.

Recommendation

North East Link Authority works with the Department of Premier and Cabinet to consider a framework for co-investment to deliver complementary infrastructure, planning or service initiatives that align with North East Link Project and public value objectives (as per the recommendation for 'Third party incentives' outlined in 2.2 Property and planning mechanisms).

3.3 Commercial mechanisms

Commercial mechanisms relate to the creation and harnessing of revenue generating opportunities from public infrastructure by allowing commercially viable opportunities to be pursued as part of contracts, which can reduce the concessions payable by government.

3.3.1 Advertising and telecommunications services leases

The lease of rights for advertising and telecommunications is relatively common in infrastructure provision in Victoria. Roadside advertising for large format billboards along road corridors is currently managed by VicRoads across Melbourne, while VicTrack provides some advertising and a range of telecommunication services to the transport and government sector. Along Melbourne's CityLink, the display of outdoor advertising signs is permissible with the prior approval of the State. Revenue from these types of services is typically returned to the asset owner, which also administers the availability of the service.

Opportunities

There may be potential advertising opportunities presented by the physical infrastructure of North East Link, particularly at pedestrian and road bridges crossing the principal roadway. The following gantry/bridge freeway sites have been identified as possible advertising locations:

- Grimshaw Road bridge, Greensborough
- The four proposed land bridges discussed in 2.2 Property and planning mechanisms
- The pedestrian bridge near Nell Street, Greensborough
- The pedestrian bridge near Macorna Street in Watsonia North.

Value capture potential

Redacted – commercial-in-confidence.⁶

Possible dis-benefits

No major dis-benefits identified.

Indicative costs

To be confirmed.

Risks and opportunities

Revenue may be subject to market conditions. Some advertising signs may have features that make them particularly distracting, creating a road safety issue.

Key stakeholders

VicRoads, Department of Treasury and Finance.

Recommendation

North East Link Authority works with the Department of Treasury and Finance and VicRoads to further define commercial revenue opportunities, such as advertising and telecommunications leases, available to North East Link.

⁶ Billboards Australia Melbourne, Average billboards advertising rates,
http://www.billboardsmelbourne.com.au/billboard_prices.html

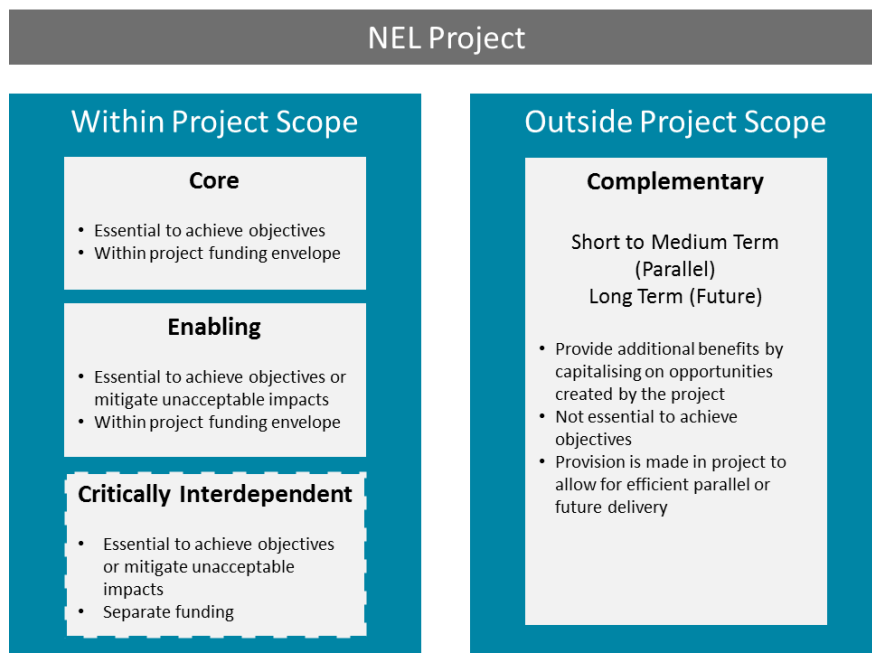
4 Implementation

4.1 Alignment of mechanisms to scope framework

The final scope of the North East Link Project, inclusive of VCC mechanisms, will be guided by the scoping framework required under the DEDJTR guidelines, shown in the figure below. The framework classifies scope items as either core, enabling, critically interdependent or complementary.

The scope of the North East Link Project is currently being developed, with some mechanisms likely to form part of the core project scope. Other mechanisms are expected to be implemented outside the project scope, as complementary projects. Some mechanisms will be subject to further development by NELA, while some will be developed by others.

Figure 4-1 DEDJTR scope framework



Source: DEDJTR Guidelines for Transport Modelling and Economic Appraisal in Victoria V3.03, December 2016

Value creation and capture mechanisms are expected to fall both within the core project scope and outside the project scope as complementary projects. Table 4-1 outlines the scoping framework recommendations for each value creation mechanism, including those requiring further development and those to be developed or delivered by others.

Table 4-1 Scope recommendations for value creation and capture mechanisms

Mechanism	Core	Complementary	Further development by NELA	By others
Value creation				
Active transport enhancements	✓	✓		
Public transport facility upgrades	✓			

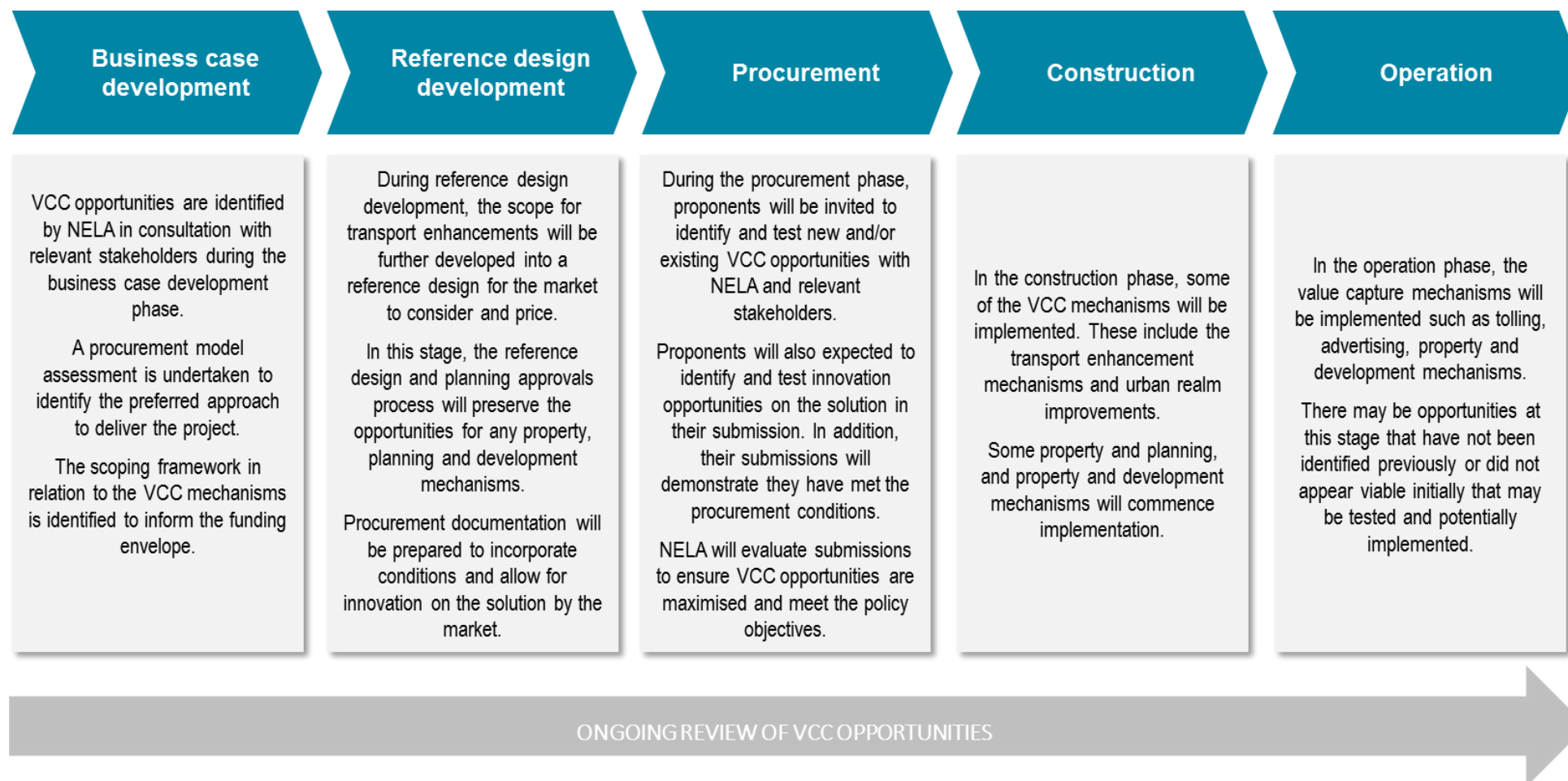
Mechanism	Core	Complementary	Further development by NELA	By others
Increased arterial road capacity		✓		
Bus service enhancements	✓	✓		
Strategic Land Use Assessment				✓
Land creation	✓		✓	
Planning initiatives				✓
Third party incentives			✓	
Procurement conditions for infrastructure	✓			
Innovation through procurement	✓			
Private finance and ownership	✓			
Urban design	✓			
Urban Design Review Panel	✓			
Public realm improvements	✓	✓		
Value capture				
Property sales and leases			✓	
Property development rights			✓	
Infrastructure levies on development				✓
Road tolls	✓			
Voluntary contributions by business beneficiaries			✓	
Advertising and telecommunications services leases			✓	

4.2 Mechanism development and delivery

Value creation and capture is an ongoing process that involves identifying, planning, implementing and tracking value creation and capture opportunities from the conception of the North East Link investment until the new roadway commences operation. At present, the project is at the business case development phase, enabling VCC opportunities to be identified at a high level. As the project progresses into the Reference Design and procurement phases, the scope of opportunities will become clearer, more refined and better tested. Some may be discounted because they are no longer viable and new opportunities may be identified.

The figure below outlines how value creation and capture mechanisms will be developed and delivered over the life of the project. Following approval of the business case, the mechanisms identified in this strategy will be further explored and tested during the Reference Design phase. During procurement, some mechanisms may be treated as scope options to be developed by proponents, providing an additional opportunity to assess value creation and capture. Asset and property related mechanisms that the State chooses to pursue will be delivered during the construction phase. Throughout the operation phase, the operator/concessionaire and other agencies can continue to explore opportunities to enhance public value and financial returns to the State.

Figure 4-2 Development and delivery of value creation and capture mechanisms over the North East Link Project lifecycle



4.3 Legislative and policy requirements

The VCC mechanisms will be subject to the relevant legislative and policy requirements.

In line with the North East Link Project Objectives, the outcomes of all identified VCC mechanisms will be consistent with the objectives of the *Transport Integration Act 2010* and Plan Melbourne 2017-2050.

The table below summarises the legislative and policy requirements relevant to the VCC mechanisms.

Table 4-2 Applicable legislation and policies

Type	Document	Applicable mechanism
Legislation	<i>Transport Integration Act 2010</i>	All
	<i>Climate Change Act 2017</i>	Procurement, finance and ownership
	<i>Planning and Environment Act 1987</i>	Property and planning Procurement, finance and ownership
	<i>Major Transport Projects Facilitation Act 2009</i>	Property and planning
	<i>Project Development and Construction Management Act 1994</i>	Property and planning
Policy	Plan Melbourne 2017-2050	All
	Network Development Strategy	All
	State Environment Protection Policy	All
	Victorian Industry Participation Policy	Procurement, finance and ownership
	Major Projects Skills Guarantee	Procurement, finance and ownership
	National Public Private Partnerships Policy	Procurement, finance and ownership
	Victorian Government Landholding Policy and Guidelines	Property and planning
	Victorian Government Land Transactions Policy and Guidelines	Property and planning
Future/ emerging initiatives	Heavy vehicle reform	User mechanisms

4.4 Governance

Where a funded mechanism has been identified as falling within NELA's remit, it will be implemented in accordance with the existing project governance framework, including existing departmental and reporting requirements. Where a mechanism has been identified as falling within the remit or within the capabilities of another State Government agency, the governance framework under which that other entity operates will govern the development and delivery of the mechanisms, including the funding of VCC mechanisms through existing Treasury investment management processes.

Value creation and capture mechanisms identified as falling within NELA's remit will be subject to the project governance framework outlined in the North East Link Business Case, which defines the principal roles on the project as follows:

- The Department of Economic Development, Transport, Jobs and Resources as Sponsor ensures the project is aligned with the portfolio's strategic plans and direction

- Transport for Victoria as Client has responsibilities under the *Transport Integration Act 2010* that specify its accountabilities and guides the performance of its functions in the delivery of transport projects
- NELA as Deliverer is accountable for delivering the project and meeting specific time, cost and quality objectives consistent with the business case.

These roles are carried out within the proposed governance framework, including groups and committees established (or yet to be established) for the project.

Within NELA, key roles and responsibilities with respect to ongoing development and delivery of the value creation and capture mechanisms are as follows.

- Property, planning and development mechanisms and design mechanisms will be managed by the Director of Land, Planning and Environment, reporting to the Chief Executive Officer.
- Service enhancement mechanisms will be managed by the Technical Director, reporting to the Chief Executive Officer.
- The implementation of the procurement, finance and ownership mechanisms and user mechanisms will be managed by the Director Commercial and Legal, reporting to the Chief Executive Officer.

It is assumed that third parties (such as the Victorian Planning Authority and Transport for Victoria) will report against VCC mechanisms falling within their remits to the relevant ministers through existing reporting pathways.

The existing VCC Working Group will be maintained to provide guidance with respect to the ongoing development, testing and review of VCC mechanisms, including identification of mechanisms that may become viable as the project progresses and circumstances change. This working group will be chaired by NELA and attended by representatives from the Department of Treasury and Finance, Transport for Victoria and Department of Prime Minister and Cabinet, and may include the appointed contractor.

4.5 Funding and financial impacts

Where possible, indicative financial and funding impacts of the VCC mechanisms outlined in this plan are provided below. A more detailed analysis of potential expenditure and income impacts of each of the mechanisms will be possible as they are developed along with the scope of the North East Link Project.

4.5.1 Value creation mechanisms

The indicative financial and funding impacts for value creation mechanisms is provided in Table 4-3. These are primarily items of expenditure.

Table 4-3 Indicative financial and funding impacts for value creation mechanisms

Mechanism	*	Remarks
Active transport enhancements	*	Costs incurred may include additional construction costs for footpath and bike path construction/extension
Public transport facility upgrades	*	Costs incurred may include additional construction costs for upgrades to public transport facilities (e.g. train station upgrade costs)
Increased arterial road capacity	*	Costs incurred may include additional construction costs for road capacity upgrade costs, of which up to \$2.5 billion is for construction of the E6

*Redacted – commercial-in-confidence

Mechanism	*	Remarks
Bus service enhancements	*	Costs incurred may include additional construction costs for bus priority treatments, of which \$520 million is for BRT along the Eastern Freeway
Strategic Land Use Assessment	*	Costs are assumed to fall within the operational budget of Land Use Victoria
Land consolidation acquisition and reservation	*	It is assumed that this will be part of the core scope and the cost will be included in the project budget
Land creation	*	Costs associated with land bridges and covering rail line at Watsonia Station
Planning initiatives	*	Rezoning and associated planning initiatives are expected to result in an uplift in the value of privately held lands
Third party initiatives	*	This mechanism will be further explored by the State
Procurement conditions for infrastructure	*	Private financing and the use of PPPs, combined with progressive procurement conditions, will reduce the impact of potential for cost overruns borne by the state and deliver increased social and economic benefits to the community
Innovation through procurement		
Private finance and ownership		
Urban design	*	It is assumed that this will be part of the core scope and the cost will be included in the project budget
Urban Design Review Panel	*	It is assumed that this will be part of the core scope and the cost will be included in the project budget
Public realm improvements	*	Costs associated with urban realm improvements are likely to be included in the project costs as part of the core scope. The costs of public realm improvements are also included in the costs of some of the above mechanisms (e.g. active transport enhancements, arterial road improvements)

* Redacted – commercial-in-confidence

4.5.2 Value capture mechanisms

The indicative financial and funding impacts for value capture mechanisms are provided in Table 4-4. These have been identified primarily as sources of income for the State; however, some costs may be associated with realising the value.

Table 4-4 Indicative financial and funding impacts for value capture mechanisms

Mechanism	*	Remarks
Property sales and leases	*	Surplus state landholdings sold or leased to private sector entities, or provided to North East Link Project Co. to offset costs of infrastructure delivery
Property development rights	*	Sites sold by Project Delivery Agreement with title transfer to Project Co. development partner post-project. This mechanism would be in addition to or in lieu of property sales and leases noted above
Infrastructure levies on development	*	Revenue streams established through infrastructure levy on development
Road tolls	*	Cash flow generation increases North East Link's market value. Revenue from toll concession used to offset project costs. Tolling is being dealt with separately
Advertising and telecommunications services leases	*	Revenue stream from leasing of roadside commercial assets flows back to state agencies (over 30 years)
Voluntary contributions by business beneficiaries	*	Negotiated co-investment in additional infrastructure and services between beneficiaries and the State Government

* Redacted- commercial-in-confidence

5 Performance indicators

The VCC mechanisms identified in this plan are expected to deliver positive impacts to the community. Table 5-1 lists the performance indicators and indicative measures that may apply to the project to ensure that desired outcomes are achieved. Some of these measures will be assessed as part of the NEL's Benefit Management Plan (see Chapter 3 of the business case).

Table 5-1 VCC performance measures

Mechanism	Performance indicator	Performance measure
Value creation		
Service enhancement mechanisms	<ul style="list-style-type: none"> Improved access to jobs, education and services Increased public safety Increased amenity values Increased asset values 	<ul style="list-style-type: none"> Number of jobs accessible within 45 minutes by car and PT Number of education opportunities accessible within 45 minutes by car and PT Number of casualty crashes Number of local trips made by walking, cycling and public transport Changes in property value in precincts where accessibility significantly increased
Property and planning mechanisms	<ul style="list-style-type: none"> Increased asset values 	<ul style="list-style-type: none"> Changes in property value in precincts where accessibility significantly increased
Procurement, finance and ownership mechanisms	<ul style="list-style-type: none"> Reduced financing costs Accelerated project delivery Increased employment and social outcomes Improved value for money 	<ul style="list-style-type: none"> Whole-of-life costs Delivery program Evaluated against evaluation criteria during tender process Evaluated against PSC as part of value for money assessment
Design mechanisms	<ul style="list-style-type: none"> Increased amenity values 	<ul style="list-style-type: none"> Assessed against evaluation criteria during tender process
Value capture		
Property and development mechanisms	<ul style="list-style-type: none"> Increased public revenue Higher levels of private sector investment 	<ul style="list-style-type: none"> Value of public revenue Number of planning applications for residential and commercial development
User mechanisms	<ul style="list-style-type: none"> Increased public revenue 	<ul style="list-style-type: none"> Value of toll concession
Commercial mechanisms	<ul style="list-style-type: none"> Increased public revenue 	<ul style="list-style-type: none"> Value of public revenue
Private asset and business beneficiary mechanisms	<ul style="list-style-type: none"> Higher levels of private sector investment 	<ul style="list-style-type: none"> Number of planning applications for residential and commercial development

Attachments

Attachment A: Potential active transport enhancements

Attachment B: Potential arterial road capacity improvements

Attachment C: Potential bus service enhancements

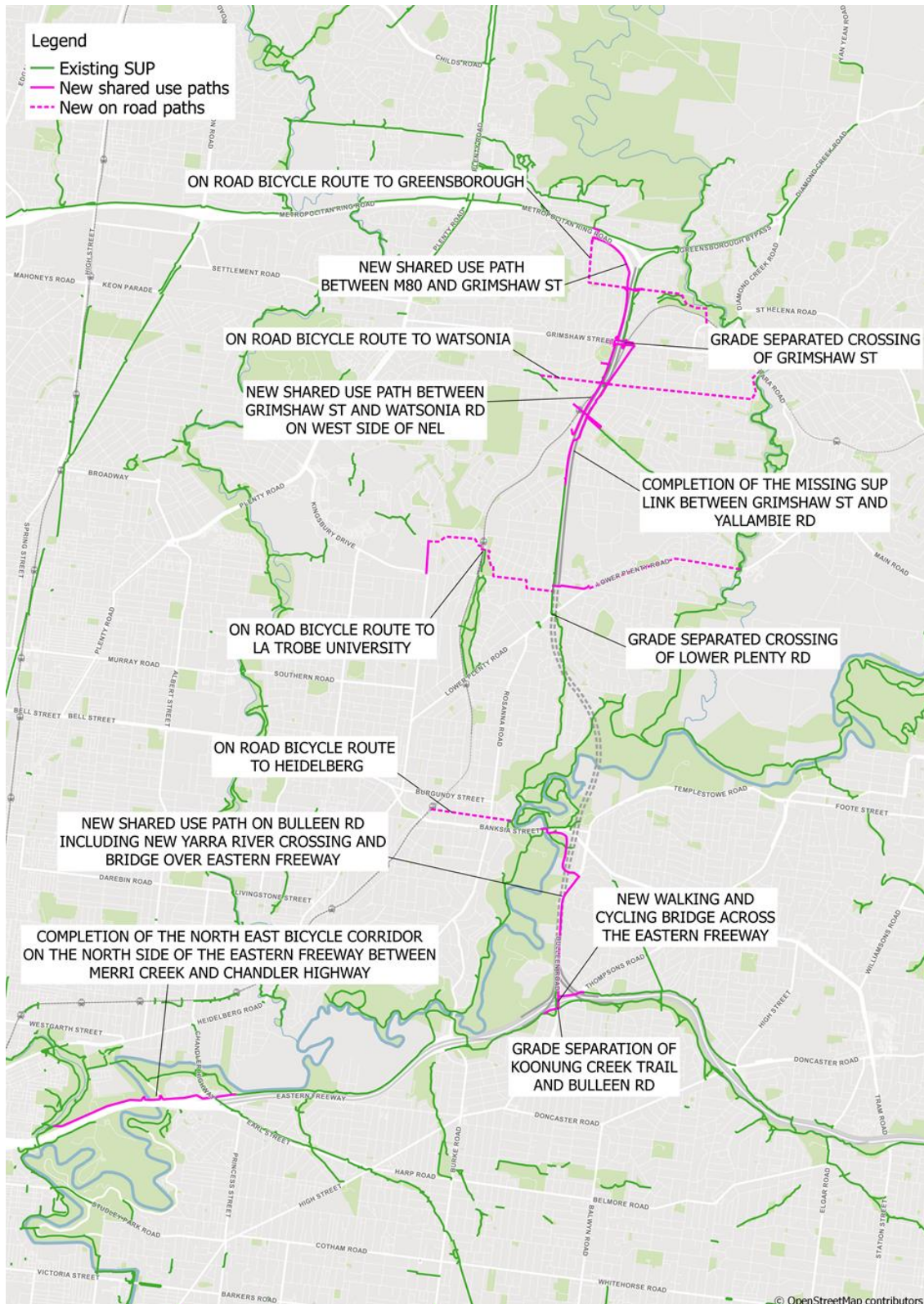
Attachment D: Value capture opportunities relating to land consolidation, acquisition and reservation

Attachment E: Value capture opportunities relating to infrastructure levies

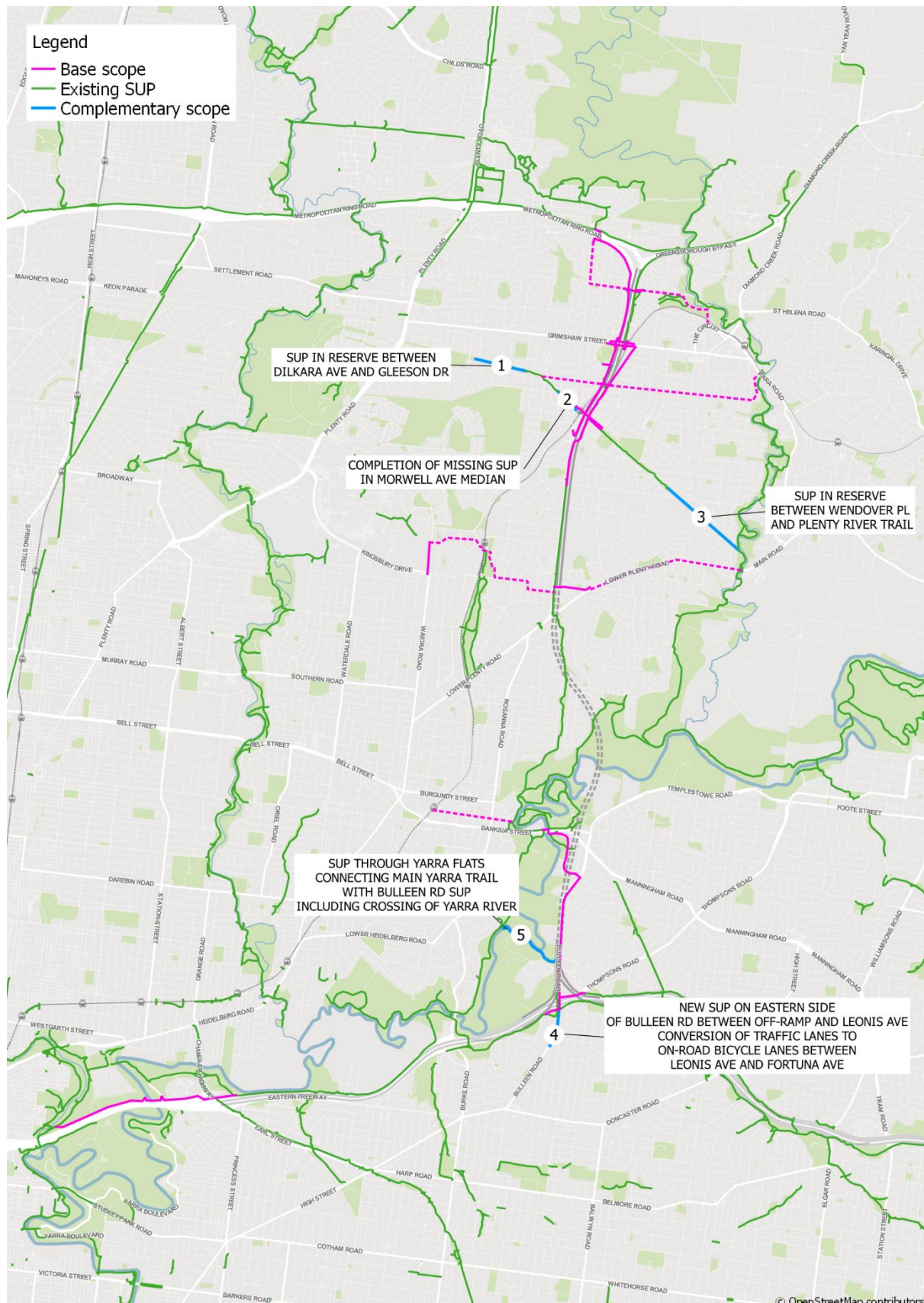
Attachment F: Basis of cost estimates

Attachment A: Potential active transport enhancements

Shared use paths improvement works

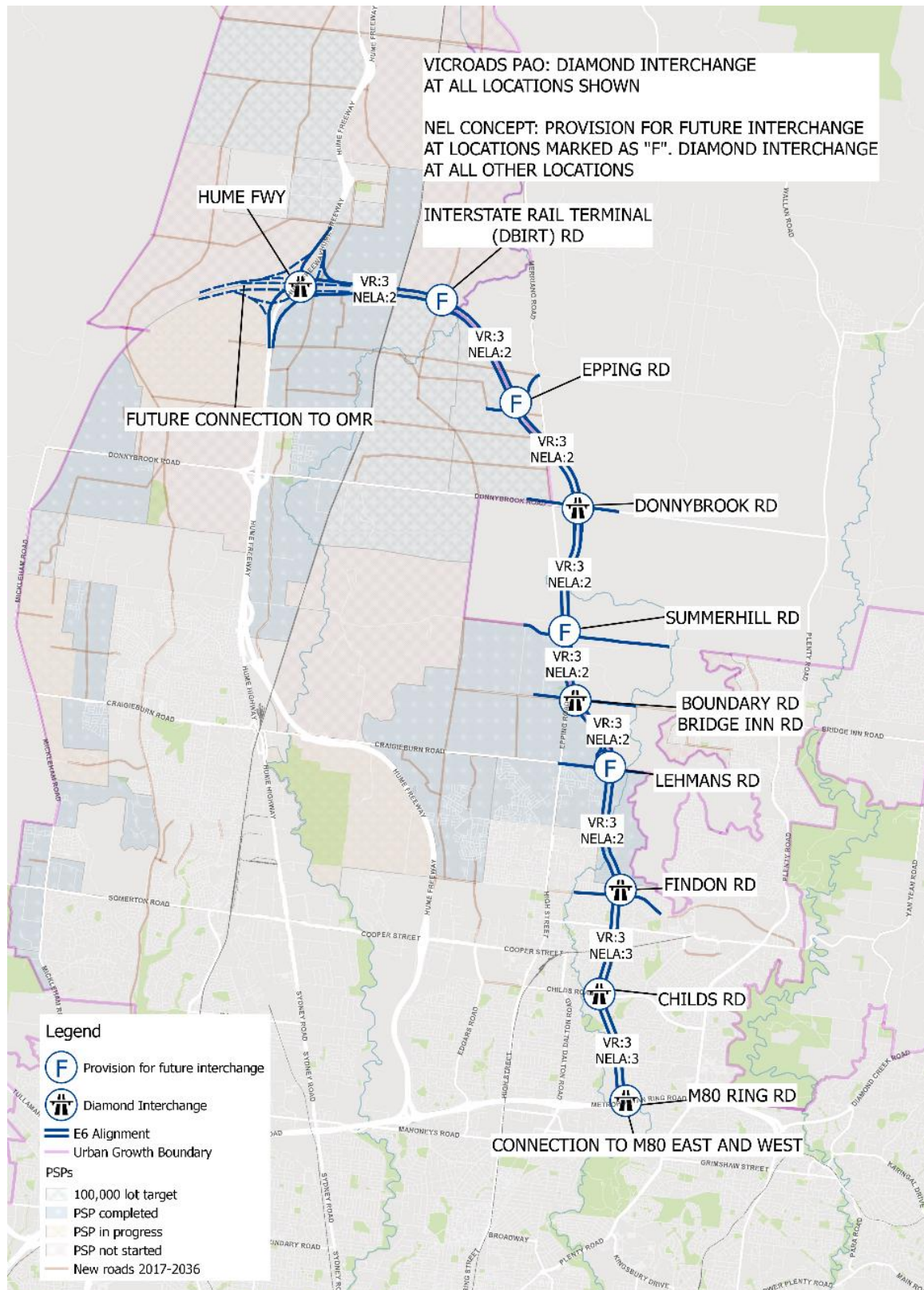


Other shared use path opportunities

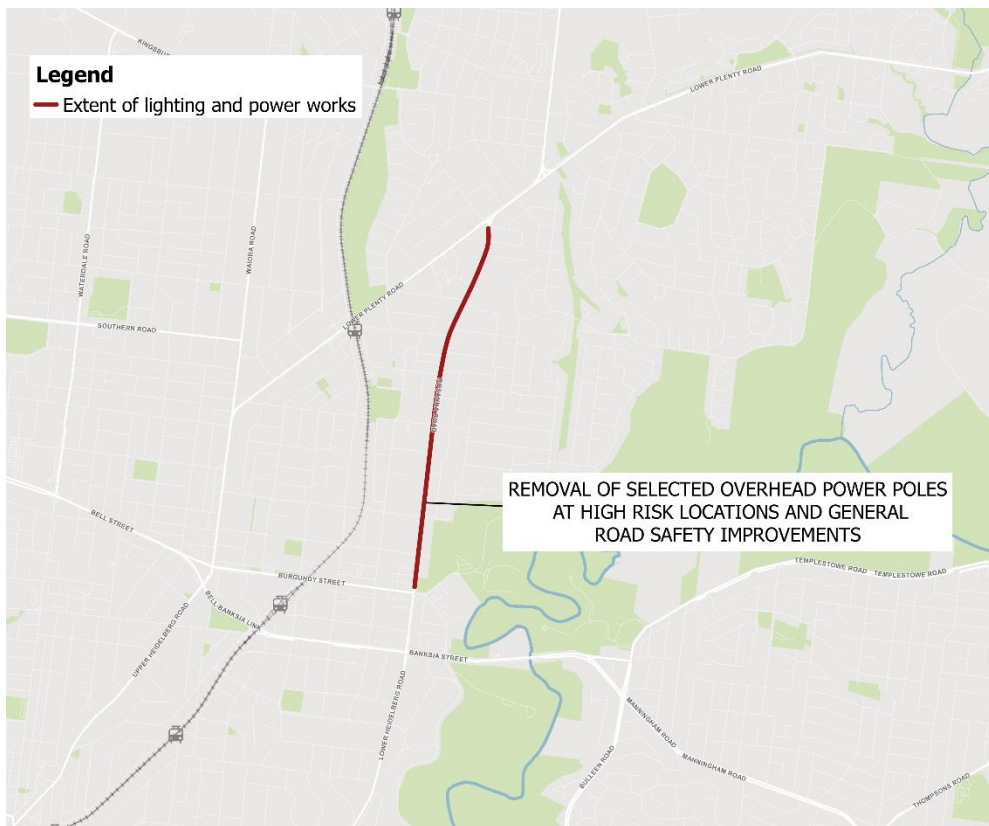


Attachment B: Potential arterial road capacity improvements

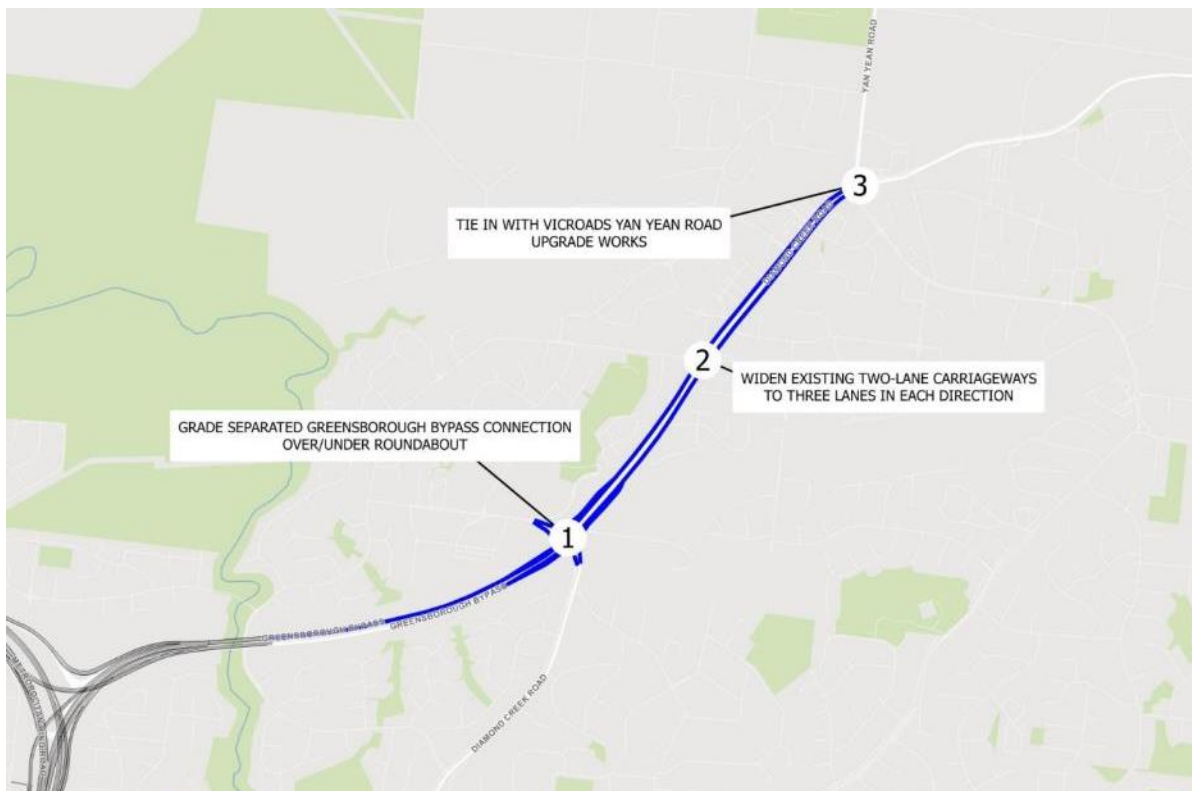
Outer Metro Ring Road (E6)



Rosanna Road upgrade

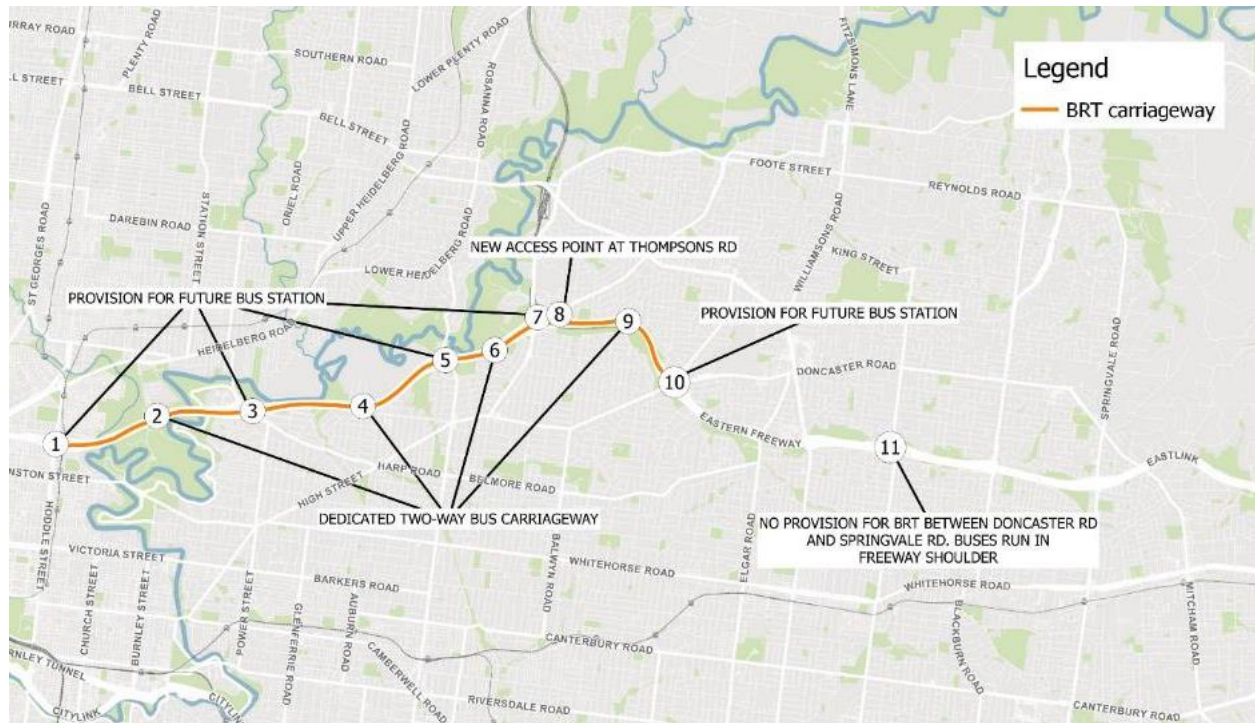


Diamond Creek Road Upgrade



Attachment C: Potential bus service enhancements

Doncaster Busway



Attachment D: Value capture opportunities relating to land consolidation, acquisition and reservation

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Attachment E: Value capture opportunities relating to infrastructure levies

Value capture analysis: Levies on development

1 Overview

The purpose of this report is to present the findings of the initial analysis of value capture opportunities for the North East Link and its complementary projects related to levies on development. This is to support the development of the Detailed Plan required under the Victorian Government's Value Creation and Capture policy.

North East Link and the complementary projects being considered for delivery as part of an overall corridor strategy (referred to as the "North East Link Project") have several value capture options available in relation to levies on development under existing Victorian Government infrastructure funding policies. These options operate under different governing frameworks and have varying applicability to the North East Link Project. Specifically, the three main options available to the project include:

1. Infrastructure Contributions Plans
2. Development Victoria (Urban Renewal Authority) charges
3. Growth Area Infrastructure Contribution

Funding mechanisms available under the system of Infrastructure Contributions Plans (ICPs) are considered to be the primary option available given the nature and location of the North East Link project. This system has been subject to significant reform in recent years to standardise and simplify the application of development levies to fund essential infrastructure required for growing communities.

Related mechanisms are available under the development levies that can be imposed by Development Victoria. These mechanisms also have a focus on urban renewal areas that are relevant for the established areas of Melbourne that will primarily benefit from the North East Link Project. At this stage, these mechanisms are considered to be a fall back option to ICPs.

The Growth Area Infrastructure Contribution (GAIC) applies to growth area land brought into the Urban Growth Boundary (UGB) since 2005-06 or subsequently which is zoned for urban development. While the North East Link Project as it is currently conceived will have impacts on development in growth areas in the outer-north of Melbourne, the direct nexus to the project is limited. This option is considered relevant for complementary projects, such as the E6, which are under consideration but not currently included in the North East Link Project.

1.2 Infrastructure Contributions Plans

ICPs have been established as part of the Victorian Infrastructure Contributions System, which is underpinned by the *Planning and Environment Act 1987*. A new initiative, ICPs remain untested within the development settings which would be applicable to the North East Link Project. However,

the settings for ICPs permit their application in declared strategic development areas within existing urban boundaries that are planned for significant growth or change. Given the North East Link Project will impact on the La Trobe National Employment and Innovation Cluster and other significant activity centres in the corridor, ICPs have potential to be utilised to fund elements of the North East Link Project.

There are two levies available under the Victorian Infrastructure Contributions System – the Standard Levy which is available to fund standard infrastructure and set at pre-determined rates in a Ministerial Direction, and the Supplementary levy which is available to fund non-standard infrastructure according to specific criteria and cost recovery principles.

It is important to note that there are prescriptive rules governing how ICPs can be used to raise funds for infrastructure investment. These rules include:

- What the levies available under the system can be used to fund, with development under the Standard Levy and Supplementary Levy being restricted to lists of specific Allowable Items which are outlined in Ministerial Directions for each development setting
- Specific criteria must be applied for Supplementary Levies related to:
 - Whether items to be funded under a Supplementary Levy can be wholly or partially funded by a Standard Levy
 - Whether the items to be funded under a Supplementary Levy are essential to the proper and orderly development of the area in question
 - Whether the items to be funded under a Supplementary Levy are identified in a Precinct Structure Plan or equivalent strategic plan applying to the land
 - Whether the land has particular physical constraints or conditions that significantly affect the estimated cost of allowable items to be funded through the ICP
 - Any other criteria which are outlined in the Ministerial Direction for the relevant development setting
- Levies are based on principles of cost recovery and 'nexus and need', where full costings and equitable apportionment of costs form the basis of the charge
- ICPs are a statutory document that must form part of planning schemes, with local government typically responsible for collecting the charges
- Restrictions, laid out in Ministerial Directions, to the permitted level of indexation to Standard Levy rates.

The implications of these rules is that it is likely only certain elements of the North East Link Project could be effectively funded from ICPs where there is a strong nexus and need for infrastructure to support development in the corridor. This is assumed to include local interchanges, arterial upgrades, urban realm improvements, and other local infrastructure works (e.g. shared user paths), where use by the local community will represent a high proportion of overall use. In contrast, the main trunk infrastructure of the North East Link Project will be heavily utilised by the wider community and is to be funded through the imposition of user tolls and other government contributions.

An initial assessment of the potential to fund a package of North East Link Project works has been completed by the project team.

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These rates are comparable with previous development contributions (and probably at the lower end of the scale) and are considered to be at a level that the market could bear without distorting investment. This suggests there is merit in continuing to explore ICPs as a possible funding mechanism for the North East Link Project and in particular the complementary projects that are a critical part of unlocking development capacity in the corridor.

While there may be positive revenue potential and policy rationale for ICPs, their implementation is not straightforward and carries a number of risks and issues that need to be worked through. Such risks and issues include:

- Challenges around collaboration with local councils and multiple planning agencies who collectively administer ICPs and issues arising from the broader context in which they operate
- Implementing changes to planning schemes which is required to occur when ICPs are introduced (i.e. including ICP arrangements and the infrastructure it will fund in the planning scheme)
- Aligning local government strategies with the North East Link Project and implementing integrated investments and planning changes (e.g. where upzoning of land is required to permit ICP-driven investment)
- As the focus of ICPs is about the provision of infrastructure to support planned developments and growth in a corridor, the approach would require aligning Victorian Government and local government strategies along the corridor as part of an integrated land use and infrastructure plan, where supporting investments including the North East Link project are demonstrated to be key enablers for the outcomes of the plan. As such, for ICPs to be taken forward they would need to form part of a broader corridor strategy that is beyond the remit of the North East Link Authority.

1.3 Development Victoria levy

Development Victoria has relatively broad statutory rights under the Urban Renewal Authority Act 2003 to impose infrastructure charges – both developer contributions and betterment levies – on properties within prescribed project areas.

There is significant flexibility in how these charges may be applied, with scope for the charge to be different for different classes of property and to include a scale of charges dependent on geographic location. Major investments that have ‘place-making’ objectives (particularly transport

infrastructure, but also the social infrastructure needed to serve growing populations) could be funded more extensively, with benefit-capture focused developer contributions in particular, by declaring the relevant project areas and using Development Victoria powers.

The use of these powers were originally an important part of funding projects like the \$290 million Revitalising Central Dandenong initiative through its Infrastructure Recovery Charge. According to Development Victoria's annual reports (i.e. previous reports delivered by Places Victoria as the precursor agency to Development Victoria), the Infrastructure Recovery Charge raised \$283,000 in 2013-14 and \$3.4 million in 2012-13.

At this stage, these mechanisms are considered to be a fall back option to ICPs and detailed analysis has not been completed.

1.4 Growth Area Infrastructure Contribution

The Growth Area Infrastructure Contribution (GAIC) is an infrastructure contribution which is established within the *Planning and Environment Act 1987* and the *Taxation Administration Act 1997*. The GAIC is designed to fund state infrastructure works in urban growth areas and is applicable in areas which have been brought inside the Urban Growth Boundary since 2006. ICPs do not apply in areas where the GAIC does apply.

As the areas which are likely to be served by North East Link fall outside of the areas within which the GAIC is collected, the GAIC is not of particular interest to the project. As such, the revenue potential of the GAIC has not been explored or modelled for this report. However, if further expansions to the road network through Melbourne's northern growth corridor are conducted in the future, including expansions which are complementary to North East Link, it is possible that the GAIC will be an important mechanism through which significant infrastructure investment can be funded.

2 Infrastructure Contributions Plans

2.2 Overview

Underpinned by the *Planning and Environment Act 1987*, the Victorian Infrastructure Contributions System has established ICPs as a mechanism which can be used to raise funds for infrastructure investment in the areas within which they are established. Under an ICP, levies can be charged on developments occurring within defined geographical locations. Maximum levy rates which can be charged within a development setting under an ICP are set out in Ministerial Directions from the Minister for Planning and are indexed annually. ICPs cannot be implemented in areas where the GAIC is applicable.

2.3 Levies

Establishing an ICP in a given area allows for two different levies to be implemented in that area – a Standard Levy and a Supplementary Levy.

The Standard Levy is designed to fund specific infrastructure investment. Proceeds from the Standard Levy must only be used to fund the infrastructure for which the Levy has been imposed (except when surplus funds remain, in which case these funds can be used to fund Supplementary Levy items – see below). The amount charged under a Standard Levy also has an upper limit, which is stipulated in Ministerial Directions.

The Supplementary Levy is designed to allow additional funds to be raised to invest in required local infrastructure where the Standard Levy is insufficient. As the Supplementary Levy is designed to fill funding gaps which are left when the Standard Levy cannot raise sufficient funds for justified infrastructure investment, the Supplementary Levy does not have a stipulated upper limit, with its rate being based on the infrastructure which it is imposed to fund. The imposition of a Supplementary Levy requires certain considerations to be made by the relevant planning authority, including:

- Whether the infrastructure investment can be wholly or partially funded from a standard levy
- Whether the infrastructure investment is essential to the proper and orderly development of the area
- Whether the infrastructure investment is identified in a Precinct Structure Plan or equivalent strategic plan applying to the land in question
- Whether the land has particular topographical, geographical, environmental or other physical constraints or conditions that significantly affect the estimated cost of allowable items to be funded through the ICP
- Any other criteria specified in the relevant Ministerial Direction

The use of the Standard and/or Supplementary Levy is not 'optional'. That is, a Standard Levy must be used first to fund specific infrastructure, with a Supplementary Levy being chargeable if the Standard Levy is insufficient.

2.4 Allowable Items

The infrastructure development projects which can take place under an ICP are known as Allowable Items. These are outlined in Ministerial Directions. No Ministerial Direction enabling ICPs in the areas of most interest to North East Link has yet been issued at the time of writing (see section 1.2.5 – Development settings). Therefore, Allowable Items as they would likely relate to North East Link are yet to be established at the time of writing. However, the existing Ministerial Direction establishing ICPs in the 'metropolitan greenfield growth areas' development setting has defined the following four categories of Allowable Items:

- **Community and recreation infrastructure** – including childcare, kindergarten, sporting and multi-purpose community facilities;
- **Transport infrastructure** – including council arterial roads and associated upgrades, intersections, roundabouts and traffic signals
- **Public land** – including land for transport, community and recreation infrastructure
- **Drainage infrastructure**

As stated above, it is uncertain whether this list is indicative of the Allowable Items which will be permitted in the 'strategic development area' development setting, which will likely be of most interest to North East Link (see section 1.2.5 – Development settings).

2.5 Process of establishing ICPs

The process for establishing an ICP is as follows:

1. **Strategic justification** – this includes identifying the strategic framework for the ICP, the ICP’s strategic justification, documenting the development projected to occur over the ICP’s lifetime, the infrastructure required and defining the ICP area
2. **Identify development setting** – this includes identifying the ‘development setting’ that applies to the land and documenting how the proposed development meets the criteria for the proposed ‘development setting’
3. **Define infrastructure** – this includes refining the scope of the required infrastructure, whether the infrastructure can be funded under a Standard and/or Supplementary Levy, defining a detailed land budget for the ICP area, the estimated value of all public land projects and any projects that serve a catchment that extends beyond the ICP
4. **Set levies** – this includes identifying the relevant standard levy rate/s which apply for the development being levied, estimating the cost of infrastructure projects to determine the Standard Levy rate and whether a Supplementary Levy is required, and estimate project costs of all infrastructure items to be raised under a Supplementary Levy if it is required
5. **Draft ICP** – this includes preparing the ICP using the relevant template and ensuring it meets the requirements of relevant legislation
6. **Prepare ICP amendment** – this includes determining the appropriate pathway for amending the planning scheme to include the ICP
7. **Approval** – this includes incorporating the ICP into the planning scheme and commencing the administration and implementation of the ICP

2.6 Development settings

The three development settings within which ICPs can operate are:

- Metropolitan greenfield growth areas
- Regional greenfield growth areas
- Strategic development areas

At the time of writing, the only development setting which had been enabled by a Ministerial Direction was the ‘metropolitan greenfield growth areas’ setting. This setting is not of major interest to North East Link, as the areas of interest which have been identified and analysed for this report would require brownfield rather than greenfield development for ICPs to be used as effective value capture mechanisms. Therefore, the use of ICPs as a value capture mechanism remains untested in terms of ICPs’ potential applicability to North East Link. It is anticipated that any utilisation of ICPs will first require a Ministerial Direction enabling ICPs to be used under the ‘strategic development areas’ setting, and for Precinct Structure Plans to be issued allowing ICPs to apply in brownfield development settings over the precincts which will receive benefits from the delivery of North East Link.

2.7 Principles and what can be funded

The ICP system is guided by a number of principles. Two such principles include:

- **Nexus and need** – that infrastructure to be funded by an ICP must be needed by the development to be levied
- **Equity** – that developments only contribute to infrastructure in proportion with their projected share of infrastructure usage

These two principles are key in considering what infrastructure could be funded using ICPs for the benefit of the North East Link Project. As funds raised through levies imposed under an ICP need to be utilised according to the abovementioned principles, the types of infrastructure which could potentially be funded under ICPs in relation to the North East Link Project includes:

- Interchanges between local roads and the main trunk of the North East Link Project
- Arterial upgrades to enable greater access of local communities to the main trunk of the North East Link Project
- Other community infrastructure which is listed under the Allowable Items in relevant Ministerial Directions for the development settings under which ICPs are established

2.8 Timing and geography

The choices around timing and geographical application of ICPs which have been considered within this report are as follows:

- Timing considerations: whether the mechanism is applied from Day 1 of North East Link operations, or when funding for the project is announced, through to the end of the concession period
- Geographical considerations: which of the precincts which will receive significant benefits from the delivery of the North East Link Project could sit within a strategic development setting, including:
 - Heidelberg – includes the La Trobe National Employment and Innovation Cluster and Major Activity Centres
 - Greensborough and Montmorency – includes a Major Activity Centre
 - Greensborough and Eltham North – includes a Major Activity Centre
 - Doncaster Hill – include a Major Activity Centre
 - Epping – includes a Metropolitan Activity Centre and a State Significant Industrial area
 - Mill Park – includes a Major Activity Centre
 - Thomastown industrial precinct – includes a State Significant Industrial area
 - Broadmeadows – includes a Metropolitan Activity Centre, a Major Activity Centre and a State Significant Industrial area

2.9 Modelled options

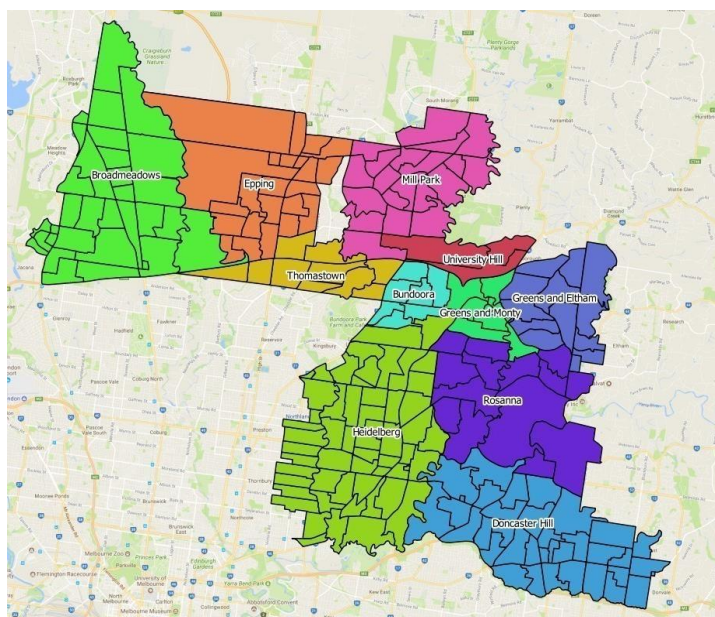
Following the preliminary analysis described in section 1.1.1 – Infrastructure Contributions Plans, the revenue potential of an ICP was modelled around the following parameters:

1. Residential properties levied on the basis of dwellings delivered to market
2. Commercial and industrial properties levied on the basis of m² of GFA delivered to market
3. Timing of the ICP occurred from an assumed project announcement year of 2018 through to the *Redacted – commercial-in-confidence*

Study area and baseline

The study area defined for this analysis was based on understanding of likely benefit areas based on initial transport modelling completed as part of the North East Link business case development.

Figure 1 Study area including defined impact precincts



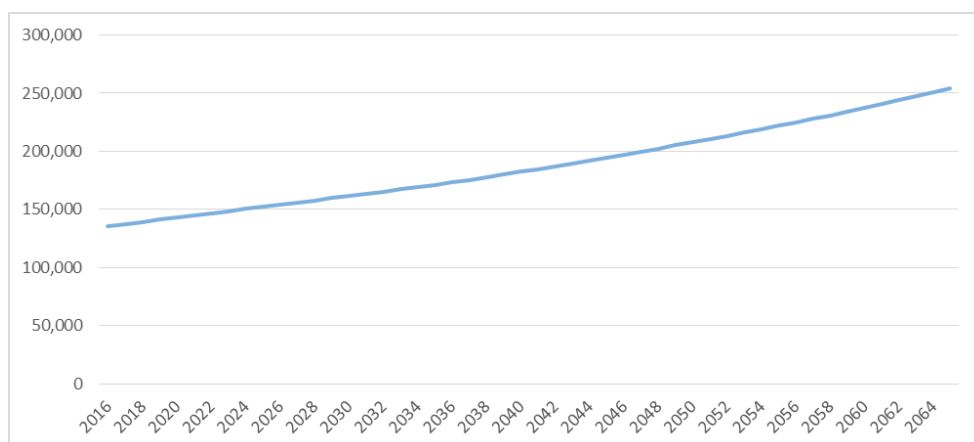
For each of the precincts estimates of forecast growth in households and commercial/industrial floor space were developed using Government forecasts of population and employment in *Victoria In Future (VIF) 2016*. To do this assumptions were also made about household size and the relationships between employment and commercial/industrial floor space (GFA).

The VIF 2016 projections are based on a 'business as usual' scenario where North East Link is not delivered and therefore excludes any uplift in employment or population attributable to the project. Given expected growth benefits from delivering North East Link are not captured by the revenue modelling conducted for this report, the output of this revenue modelling should be considered both preliminary and conservative in nature.

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Note that the 46% uplift in dwellings over the assessed project period have been calculated using the midpoint of the forecast dwellings. This is to account for the fact that dwellings constructed at the end of the assessed project period will derive proportionately less value from the delivered infrastructure compared to those which were constructed at the start of the period.

Figure 2 Residential dwellings by year, 2016 – 2065 (based on VIF 2016 forecasts)



Source: EY analysis

Infrastructure

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Revenue potential

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Sensitivity tests

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¹ To simplify the analysis we have used the estimate of new residential properties as a share of total residential properties (i.e. 46%) as a proxy for all new developments including commercial and industrial property.

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3 Key findings and next steps

Key findings stemming from this analysis include the following:

- ICPs are the primary mechanism which may be used to capture value within the context of the North East Link Project, with Development Victoria charges and the GAIC acting as potential ‘back-up’ options
- ICPs can be used to fund state and local infrastructure in certain circumstances, however these circumstances are restricted by prescribed rules
- The principles of nexus and need restrict the way in which funds can be raised using ICPs, as these principles require that funds raised by ICPs be spent in the areas within which they are raised where there is a demonstrable need for specific types of local infrastructure investment
- The revenue which could potentially be raised by the imposition of ICPs is significant
- The imposition of ICPs and their use as value capture mechanisms within the context of the North East Link Project has challenges, which include:
 - Restrictions on how and where funds raised by ICPs can be used
 - Multiple interfaces between local councils and planning agencies
- A corridor strategy will likely be required to progress the use of ICPs as a value capture mechanism in the context of the North East Link Project, which will need to address:
 - Delivery and funding the package of infrastructure to support desired growth and development in the Project corridor
 - Support desired growth and development in the corridor and maximise the benefits of the North East Link Project

Next steps should focus on relevant planning agencies to consider progressing the development of a broader corridor strategy. These agencies should also focus on integrating the North East Link Project and associated complementary projects with other policies, plans and projects that would be needed to achieve desired growth outcomes. In the first instance, this could be led by the VPA with the support of NELA and other agencies, including DELWP, Transport for Victoria and VicRoads.

Attachment F: Basis of cost estimates

Mechanism	Description	*	Basis of estimate
Bus service enhancements	Routes identified for potential upgrades include Grimshaw Street, Diamond Creek Road, Fitzsimmons Lane, Main Road, Elder Street, Banksia Street and Manningham Road.	*	VicRoads website details of other projects and review of previous relevant public transport studies
	A number of opportunities are available to improve overall bus services and connectivity through the north east, including:		
	<ul style="list-style-type: none"> Enhancing existing Doncaster Area Rapid Transit (DART) services 		
	<ul style="list-style-type: none"> Reconfiguring existing orbital SmartBus routes to adapt to changes in traffic conditions and provide greater connectivity to activity centres and public transport interchanges 		Design provided by GHD, take off of quantities and benchmark rates have been applied for rapid appraisal Benchmark percentages applied for Overheads, indirects and risk allowances as per main Corridor A estimate
	<ul style="list-style-type: none"> Providing additional express bus services between activity centres and transport nodes in the north east 		VicRoads website details of other projects and review of previous relevant public transport studies
	<ul style="list-style-type: none"> Provision of Bus Rapid Transit infrastructure along the Eastern Freeway, including dedicated lanes from Chandler Highway to Doncaster Road and four bus stations at key interchanges to support long-term transport policy objective of successive Victorian Governments 		Design provided by GHD, take off of quantities and benchmark rates have been applied for rapid appraisal Benchmark percentages applied for Overheads, indirects and risk allowances as per main Corridor A estimate
Active transport enhancements	<ul style="list-style-type: none"> New on-road cycle paths to improve connectivity to and from key activity centres including Greensborough, Watsonia, La Trobe University and Heidelberg 	*	Design provided by GHD, take off of quantities and benchmark rates applied
	<ul style="list-style-type: none"> New walking and cycling connections to improve east-west connectivity along the North East Link alignment, integrating with the new cycle path running parallel to North East Link 		Design provided by GHD, take off of quantities and benchmark rates applied
	<ul style="list-style-type: none"> New cycle paths along the Eastern Freeway, including providing a new direct connection at the western end of the freeway and a grade separated crossing of Bulleen Road 		Design provided by GHD, take off of quantities and benchmark rates applied
	<ul style="list-style-type: none"> Extension of the cycleway along Bulleen Road south of the Eastern Freeway to complete a missing link in the network 		Design provided by GHD, take off of quantities and benchmark rates applied

* Redacted – commercial-in-confidence

Mechanism	Description	*	Basis of estimate
	<ul style="list-style-type: none"> A new pedestrian crossing along Greensborough Road to reduce severance and provide easier access to the Greensborough Road Path 		<p>Design provided by GHD, take off of quantities and benchmark rates have been applied for rapid appraisal</p> <p>Benchmark percentages applied for Overheads, indirects and risk allowances as per main Corridor A estimate</p>
Public transport facility upgrades	Include additional car parking at Watsonia Station	*	<p>Design provided by GHD, take off of quantities and benchmark rates have been applied for rapid appraisal</p> <p>Benchmark percentages applied for Overheads, indirects and risk allowances as per main Corridor A estimate</p>
Increased arterial road capacity	<ul style="list-style-type: none"> Bulleen Road: works to address road safety issues arising from access constraints to and from local schools and social clubs along Bulleen Road 	*	<p>Design provided by GHD, take off of quantities and benchmark rates have been applied for rapid appraisal</p> <p>Benchmark percentages applied for Overheads, indirects and risk allowances as per main Corridor A estimate</p>
	<ul style="list-style-type: none"> Rosanna Road: safety improvements for drivers, local residents, pedestrians and cyclists along Rosanna Road 		<p>Design provided by GHD, take off of quantities and benchmark rates have been applied for rapid appraisal</p> <p>Benchmark percentages applied for Overheads, indirects and risk allowances as per main Corridor A estimate</p>
	<ul style="list-style-type: none"> Diamond Creek Road: works to improve access to North East Link by reducing traffic congestion at the roundabout and along Diamond Creek Road 		<p>Design provided by GHD, take off of quantities and benchmark rates have been applied for rapid appraisal</p> <p>Benchmark percentages applied for Overheads, indirects and risk allowances as per main Corridor A estimate</p>
	<ul style="list-style-type: none"> Outer Metro Ring Road (E6): a new freeway connection from the M80 to the Hume Highway, comprising a two-lane freeway in each direction, upgrades to widen adjacent arterial roads and widening the M80 between E6 and North East Link to allow for new collector-distributor lanes 		<p>Initial estimate undertaken via first principles using Vic Roads information</p> <p>GHD design used to update and refine estimate</p> <p>General percentages for contractor management, margin, design, agency cost and risk were used for this high level estimate</p>
Land creation	Land bridges of approximately 80 metres long at four locations between Watsonia Road and Lower Plenty Road	*	<p>Design provided by GHD, take off of quantities and benchmark rates have been applied for rapid appraisal</p> <p>Benchmark percentages applied for Overheads, indirects and risk allowances as per main Corridor A estimate</p>
	Decking over the rail line near Watsonia Station		<p>Design provided by GHD, take off of quantities and benchmark rates have been applied for rapid appraisal.</p> <p>Benchmark percentages applied for Overheads, indirects and risk allowances as per main Corridor A estimate</p>

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