



Infrastructure Victoria
Level 33, 140 William Street
Melbourne VIC 3000
Australia

By email: enquiries@infrastructurevictoria.com.au
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To the Infrastructure Victoria project team,

Draft 30-year infrastructure strategy: submission

Thank you for the opportunity to provide feedback on the draft strategy.

Prosper Australia is an economic think tank working in the Georgist tradition, with a long history of research into property taxation.

We wish to raise one major point: the draft strategy lacks an infrastructure funding strategy.

The draft recommendations cover several governance and system reform matters relating to project selection, planning, and delivery, as well as specific project priorities.

However only one recommendation (*Recommendation 36: Reform infrastructure contributions*) relates to infrastructure funding, and there is no sense of an overall recommended approach. The critical role of value capture is only mentioned in passing.

Infrastructure Victoria's role in advising on how Victoria's infrastructure needs should be addressed necessarily invites holistic guidance on the funding half of the infrastructure equation.

Funding choices bear directly on the draft strategy's objectives, as we discuss below.

In line with best practice elsewhere, e.g. New Zealand's Infrastructure Strategy, the final strategy should include a recommended overall funding approach for infrastructure.¹

This should centre on the use of a beneficiary-pays value capture approach to socialise the unearned windfall gains from infrastructure delivery and associated rezoning.

How infrastructure is funded affects access to housing, jobs and services (Objective 1)

Infrastructure investment and rezoning generate large windfall gains for property owners.

Without value capture mechanisms, these unearned gains exacerbate wealth inequality, entrenching unequal access to housing, jobs and services, as higher-wealth households move into areas well served by infrastructure while lower-wealth households are pushed into areas of lower accessibility.

Unequal access to housing, jobs and service is not just a product of the spatial distribution of infrastructure. It is also a function of the inter-personal distribution of income, which determines inequality in access to well-serviced land. Income distribution determines how competition over scarce land manifests in housing density and accessibility outcomes. Critically, the windfall gains from infrastructure and upzoning are not distributed equally – rather, they favour the already-wealthy. General taxation, by contrast, is born more equally (e.g. via lower wages). Privatised windfall gains and general-

¹ New Zealand Infrastructure Commission / Te Waihangā (2022), [New Zealand's Infrastructure Strategy](#). The strategy includes 12 funding and financing recommendations of 68 total.

revenue infrastructure funding therefore make the wealth distribution less equal, reducing access to housing, jobs and services for those at the lower end.

When wealth disparities drive inequitable access to well-serviced land this also reduces the efficiency of the infrastructure spend by slowing urban densification, raising per capita infrastructure costs, and lowering benefit realisation across the system. Any infrastructure funding system that privatises windfall gains and draws on general taxation therefore requires the state to spend more to achieve any given level of accessibility – or, put another way, it means any given taxpayer contribution delivers poorer accessibility outcomes than if infrastructure and zoning windfalls were captured and recycled into further investment.

Finally, when windfall gains are not captured, they provide an incentive for speculative behaviour, encouraging housing developers to delay investment in anticipation of future gains in land values.² This restricts housing supply and inflates prices, undermining the objective of improving access to housing and opportunity.

How infrastructure is funded has significant implications for economic productivity (Objective 6)

Funding infrastructure from distortionary taxes, such as payroll tax, imposes an excess burden on the economy, reducing workforce participation, business investment and economic output. By contrast, funding infrastructure by capturing economic rents via value capture mechanisms minimises deadweight losses, supporting productivity and economic growth.

Leaving windfalls in private hands also reduces the productivity of land use. High-value, well-located sites are relatively under-used, being held in lower density by landowners who are wealthier than if windfalls were socialised. This reduces infrastructure use and the productivity of infrastructure investment.

Capturing land value windfalls can produce a virtuous circle, by allowing a given taxpayer dollar to fund more projects, delivering greater accessibility gains, and hastening densification by reducing household wealth disparities. This in turn reduces greenfield infrastructure demand and improves infrastructure utilisation, further increasing the efficiency of the infrastructure spend.

The critical role of value capture

Land value capture refers to mechanisms to socialise the uplift (windfall gain) in land value resulting from infrastructure delivery and/or rezoning, via taxation or other means.

Value capture is justified on the beneficiary principle of taxation: those who benefit most from public expenditure should contribute more of its cost. Infrastructure Victoria has endorsed this principle in its draft recommendations regarding infrastructure contributions (*Recommendation 36*) and road user charging (*Objective 6: Future Option*).

Windfall gains are best understood as arising from the joint delivery of infrastructure and rezoning, not from infrastructure alone. Infrastructure yields no value uplift without supporting land-use rights, and land-use rights are worthless without supporting infrastructure. The appropriate object of value capture is therefore the joint uplift.

Land grows in value because it is fixed in supply, and competition over desirable locations bids up its price. When infrastructure or rezoning improves accessibility or development potential, this private value is captured by landowners – not infrastructure users or developers per se. In the long run, all project benefits are reflected in higher land values.³

² Prosper Australia (2023), [Speculative Vacancies 11: A window onto the economics of waiting](#), July.

³ Stiglitz and Rosengard (2021), *Economics of the public sector*, 4th ed., chapter 27, “Capitalization”.

This means any project with benefit-cost ratio (BCR) above one can, in principle, be fully funded by capturing the incremental growth of land values.⁴ Any project worth doing can be done at no net cost to the public.

However a value capture approach need not be limited to cost recovery. All land value uplift – even that exceeding the cost of works – constitutes an unearned windfall that can be captured for public revenue. Infrastructure contributions pegged to the cost of works do capture value, but are structured more as a ‘cost recovery’ tool than a pure ‘value capture’ mechanism. Victoria’s Rezoning Windfall Gains Tax (RWGT) is a purer form of value capture, though by exempting residential-to-residential rezonings is less equitable and raises less revenue than it otherwise might.

We have previously estimated that if Victoria adopted ACT-style rezoning value capture, it could raise around \$4 billion or more per annum in additional revenue.⁵ Rezoning at Fisherman’s Bend alone is estimated to have led to over \$4 billion in windfall gains.⁶

Without value capture, infrastructure must be funded more heavily from either user charges, which at excessive levels can inefficiently deter infrastructure use, or general taxation, which reduces economic productivity and burdens those receive no direct benefit, such as homeowners trading property (in the case of stamp duty) or wage earners and employers (in the case of payroll tax).

Recommendations

Prosper Australia recommends that Infrastructure Victoria’s final 30-year strategy include an explicit infrastructure funding strategy centred on land value capture.

Infrastructure Victoria should acknowledge the underlying principle – that no-one should receive windfall wealth gains from public decisions so long as productive activity is still subject to taxation – and should acknowledge how a land value capture strategy can improve access to housing, jobs and service, while improving the efficiency of the tax system and the productivity of infrastructure spending.

Infrastructure Victoria should also note as guiding design principles for value capture that:

- (a) the joint uplift from infrastructure and rezoning is the underlying tax base;
- (b) property owners should not be forced to sell their assets for the sake of liquidity (there is a clear role for tax deferral);
- (c) for horizontal equity, liabilities should be proportional to benefits (windfall gains) received;
- (d) for project- or precinct-specific mechanisms, as opposed to embedded tax system mechanisms like the RWGT, early announcement of value capture intentions is essential to support orderly price adjustment.

Kind regards,



Dr Tim Helm
Director of Research and Policy
Prosper Australia
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⁴ This is referred to as the Henry George theorem, a.k.a. Arnott-Stiglitz theorem.

⁵ Prosper Australia (2024), [Buying better income taxes with better land taxes](#), March.

⁶ Prosper Australia (2021), [The Rezoning Honey-pot: Evidence from Fisherman’s Bend](#), June.