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Push for rates hike to fund rail tunnel

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Local households could face an extra $435 rate charge each to help underwrite a proposed new $19 billion train tunnel that would connect Clifton Hill with Newport, the state's key infrastructure adviser says.

In a report released on Thursday, Infrastructure Victoria concluded that the Melbourne Metro 2 project – a proposed train tunnel running from Clifton Hill to Newport via Parkville, Southern Cross Station and Fishermans Bend – could add about $20 billion to land values.

It warned that residential and commercial properties set to benefit from big infrastructure projects might need to get used to the idea of helping pay for them.

In a controversial approach to funding infrastructure known as ''value capture'', and which is championed by Prime Minister Malcolm Turnbull, it concluded about onequarter of the project costs could be funded by hitting those who benefit with a ''betterment levy''.

Under the most likely scenario, all residential and commercial properties within a kilometre of the rail corridor would pay the new tax. In the first year of operation, the average rate would be $435 for residential properties, or $21 and $10 per square metre for commercial and industrial properties.

The Andrews government has already ruled out such a tax to pay for the first $10.9 billion stage of the project, which will involve twin tunnels running from South Yarra to Kensington.

But Infrastructure Victoria has placed the idea of a second stage on the agenda as Melbourne struggles to cope with booming population growth. The second stage has been estimated to cost between $15 billion and $22 billion in today's dollars, with construction unlikely to start until at least 2034.

A spokesman for Treasurer Tim Pallas said Infrastructure Victoria's final recommendations were due in December and would be ''fully considered'' ahead of a five-year infrastructure strategy due to be released by the middle of next year.

With infrastructure funding a major political issue, the idea of hitting households or businesses with higher taxes to help pay for it is already proving highly controversial.

Property Council deputy executive director Asher Judah said he was shocked at the proposal, warning the plan would increase house prices and rents, with many Victorians already struggling to cope with housing costs.

Mr Judah said that, under the proposal, a 40,000-square-metre office tower could face an increase of about $800,000 a year for 30 years.

The idea of ''value capture'' – where the households and business that directly benefit from a project are required to help fund it – has been heavily spruiked by Mr Turnbull, who in April called for a ''cultural gear change in the way that we look at urban infrastructure''.

But the details about how the concept could be put into practice to fund big projects have so far proved elusive. Infrastructure Victoria said methods of applying the concept could include ''betterment'' levies, developer contributions, and cashing in on property development around train stations.

It said there was evidence that certain types of infrastructure such as train stations increased nearby land values, providing ''significant windfall gains to land owners''.

The concept of value capture is not new. It was used to help fund Melbourne's City Loop, with a variety of levies and charges. It is also being used to fund London's Crossrail project through a levy on nonresidential properties.