Melbourne's growth management opportunity

Interface Councils

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SGS Economics and Planning Pty Ltd
ACN 007 437 729
www.sgsep.com.au

OFFICES IN CANBERRA, HOBART, MELBOURNE, AND SYDNEY ON THE COUNTRY OF THE NGAMBRI/NGUNNAWAL/NGARIGO, MUWININA, WURUNDJERI, AND GADIGAL PEOPLES.

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1. Melbourne's growth

1.1 Commitment to 70/30

'Urban consolidation', or the idea of making the most of the existing city footprint in accommodating future growth, has been an abiding theme of metropolitan strategic planning in Melbourne for more than 4 decades. It was first flagged in the Melbourne and Metropolitan Board of Works's (MMBW) *Future Growth of Melbourne* report, published in 1967, and given full voice in the *Metropolitan Strategy Implementation* report released by the Board in 1981.

This year, the Government declared that it was doubling down on containing Melbourne's outward urban spread. This would be in line with Policy 2.1.2 of *Plan Melbourne 2017 - 2050*, which sets an aspiration of accommodating 70% of net additional housing in the established parts of the metropolis and 30% in greenfield areas.

In an address to a property developers forum held in April 2023, the Deputy Premier, Jacinta Allan, said

> *"So to address … housing affordability, availability, supply, an update, indeed a recalibration of Plan Melbourne is underway, and we have a significant opportunity to reassess the way we approach planning for Victoria's growth.*
> *"The new plan will focus more sharply on increasing housing supply in urban areas, as well as increasing the variety of housing types and market delivery models.*
> *"It will also propose a range of additional government interventions to drive growth more strongly in established areas and to help deliver that liveable and sustainable Melbourne."*[1]

The Premier and Minister for Planning have made similar public statements.

Nevertheless, it will take some time to slow down the expansion at Melbourne's fringe. Moreover, a 30% share of future growth by itself will mean that current growth areas are likely to see continuing strong housing development and all the attendant pressures for service provision.

1.2 Projected growth across Interface Councils

Table 1 shows SGS's estimates of projected population growth to 2036 reflecting recent trends on the one hand and a commitment to 70/30 on the other. Over this time frame, the impact on growth across the Interface Councils will be modest. Collectively, their population is expected to grow to 2.5 million instead of 2.7 million, a reduction of only 6%.

[1] Lenaghan, N. 'Victorian government muscles up for 1 million more suburban homes', Australian Financial Review April 30, 2023 (https://www.afr.com/property/commercial/victorian-government-muscles-up-for-1-million-more-suburban-homes-20230428-p5d40x)

TABLE 1:INTERFACE COUNCILS – PROJECTED GROWTH TO 2036 CURRENT TREND VERSUS 70/30

LGA	2021		2036 TREND	2036 SEVENTY-30	Difference	% difference
Cardinia	119,619		167,264	157,638	- 9,625	-6%
Casey	369,453		500,423	473,964	-26,460	-5%
Hume	247,062		337,175	318,970	-18,205	-5%
Melton	181,008		327,483	297,891	-29,592	-9%
Mitchell	50,670		90,818	82,707	-8,111	-9%
Mornington Peninsula	170,528		197,200	191,812	-5,388	-3%
Nillumbik	63,454		67,677	66,824	-853	-1%
Whittlesea	231,799		338,431	316,888	-21,543	-6%
Wyndham	296,200		463,393	429,616	-33,778	-7%
Yarra Ranges	157,099		175,214	171,554	-3,660	-2%
Total	**1,888,913**		**2,665,078**	**2,507,863**	**-157,215**	**-6%**
Rest of Melbourne	3,054,662		3,671,917	3,829,131	157,215	4%

Source: SGS Economics & Planning Pty Ltd

Over time, the diversion of growth from the Interface Councils will become more pronounced. By 2056, the aggregate population of these Councils is expected to reach 2.9 million under an effective 70/30 planning regime, compared to 3.6 million on current trends. The 2056 populations of Melton, Mitchell and Wyndham would be significantly smaller than they would have otherwise been had growth continued as per recent trends (Table 2).

Even so, around 1 million people will be added across the Interface Councils under a strong urban consolidation strategy which would ultimately see 70% of growth accommodated in the established areas of Melbourne (Table 3).

TABLE 2:INTERFACE COUNCILS – PROJECTED GROWTH TO 2056 CURRENT TREND VERSUS 70/30

LGA	2021		2056 TREND	2056 SEVENTY-30	Difference	% difference
Cardinia	119,619		216,677	178,040	-38,637	-18%
Casey	369,453		608,461	513,316	-95,144	-16%
Hume	247,062		446,291	366,982	-79,309	-18%
Melton	181,008		505,952	376,598	-129,354	-26%
Mitchell	50,670		189,671	134,338	-55,334	-29%
Mornington Peninsula	170,528		246,930	216,516	-30,414	-12%
Nillumbik	63,454		78,260	72,366	-5,894	-8%
Whittlesea	231,799		446,269	360,893	-85,376	-19%
Wyndham	296,200		608,987	484,473	-124,514	-20%
Yarra Ranges	157,099		207,181	187,244	-19,937	-10%
Total	**1,888,913**		**3,554,679**	**2,890,766**	**-663,913**	**-19%**
Rest of Melbourne	3,054,662		4,733,121	5,397,034	663,913	14%

Source: SGS Economics & Planning Pty Ltd

TABLE 3: POPULATION INCREMENT 2021 - 2056

LGA	Growth 2021 – 2056 TREND	Growth 2021 - 2056 SEVENTY-30
Cardinia	97,058	58,421
Casey	239,008	143,863
Hume	199,230	119,920
Melton	324,944	195,590
Mitchell	139,002	83,668
Mornington Peninsula	76,402	45,988
Nillumbik	14,806	8,912
Whittlesea	214,470	129,094
Wyndham	312,787	188,273
Yarra Ranges	50,082	30,145
Total	**1,665,766**	**1,001,853**
Rest of Melbourne	1,678,459	2,342,372

Source: SGS Economics & Planning Pty Ltd

1.3 Infrastructure costs

According to Infrastructure Victoria (2019), the total infrastructure cost to accommodate a household in a greenfield setting is around $170,000[2].

SGS estimates that the State Government outlays around $50,000 per greenfield dwelling in transport, education, health and other infrastructure. This is offset by the Growth Area Infrastructure Charge (GAIC) which translates to around $6,000 per dwelling.

Projected growth across the Interface Councils will therefore likely cost the State Government around $0.5 billion extra per year, after GAIC, even under a strong urban consolidation policy. And each of the households moving into these dwellings will demand and expect the recurrent services that go with this additional infrastructure.

[2] This takes the midpoint in the range of costs reported by Infrastructure Victoria in IV(2019) Infrastructure Provision in Different Development Settings (Volume 2) https://www.infrastructurevictoria.com.au/wp-content/uploads/2019/08/IPIDDS-Metro-Melbourne-Vol-2-Technical-appendix_Aug-2019.pdf.pdf

2. Planning & delivery of housing

Under the 70/30 commitment, close to 30,000 net additional dwellings will need to be built within the established parts (i.e. non Interface Councils) of metropolitan Melbourne per year over the next 35 years.

This is achievable but will require radical changes to the way we do planning and delivery of housing. Till now, our planning system has been essentially 'reactive' in the sense that policies and strategies are drawn up, but we rely on the private development sector to find and deliver on housing production opportunities within these parameters. In doing so, developers have to contend with a range of non-planning impediments including lot fragmentation, land withholding and local infrastructure shortfalls.

'Guiding the market' through planning strategies and rules will no longer suffice. Governments will need to step up to overcome site amalgamation, undertake master-planning and fill infrastructure gaps, to create a sizeable and reliable pipeline of activity centre and brownfield opportunities for the development sector.

Similarly, if governments are to contain the costs associated with urban expansion in the interface areas and ensure a responsive supply of housing that is affordable, 'a plan and let them come' approach to greenfield development will no longer do.

Greenfield suburbs will themselves need to be more compact, that is, built at higher densities and offering much greater diversity in housing type.

The inefficiencies caused by the distinctively Australian approach of separating the land subdivision process from the actual house building will need to be addressed. This could occur via public sector organisations like Development Victoria demonstrating how a more integrated system of housing delivery could work.

Greenfield suburbs will also need to be developed in a more tightly sequenced way, so that infrastructure agencies can adopt efficient roll out plans for their investments. Developers wanting to go out of sequence would be called upon to compensate for any extra costs incurred by these agencies.

Where development in logical areas cannot proceed due to lot fragmentation or land withholding, or where there are specific infrastructure gaps, agencies like Development Victoria and VPA can again play a significant role. This would focus on bringing development partners together voluntarily, but could extend to compulsory acquisition in the public interest if necessary.

3. Economic integration

The metropolitan growth management challenge is not just about producing enough housing in the right places, as important as that is. A crucial issue is the economic functionality of the city; that is, its ability to generate prosperity and opportunity for all.

Residents of Melbourne's growth areas and interface communities have only a fraction of the economic connectivity of the average Melburnian. This limits their prospects of getting ahead and acts as a handbrake on the metropolis's productivity.

A common measure of economic connectivity is 'Effective Job Density (EJD)'. The EJD index for a given area like a suburb or neighbourhood encompasses the number of jobs in the area plus the number of jobs that can be reached from the area divided by the travel time in getting to them. It therefore brings together employment massing and transport availability.

Unsurprisingly, the EJD map of Melbourne shows the CBD and inner city as being the most economically dense and connected areas in the metropolis. There is also an eastward bias in economic connectivity reflecting historic transport investment in this direction. Meanwhile economic connectivity to the west is comparatively modest because of a lack of transport infrastructure, notwithstanding relative proximity to the CBD (see Figure 1 and Figure 2).

FIGURE 1: EFFECTIVE JOB DENSITY – METROPOLITAN MELBOURNE 2021

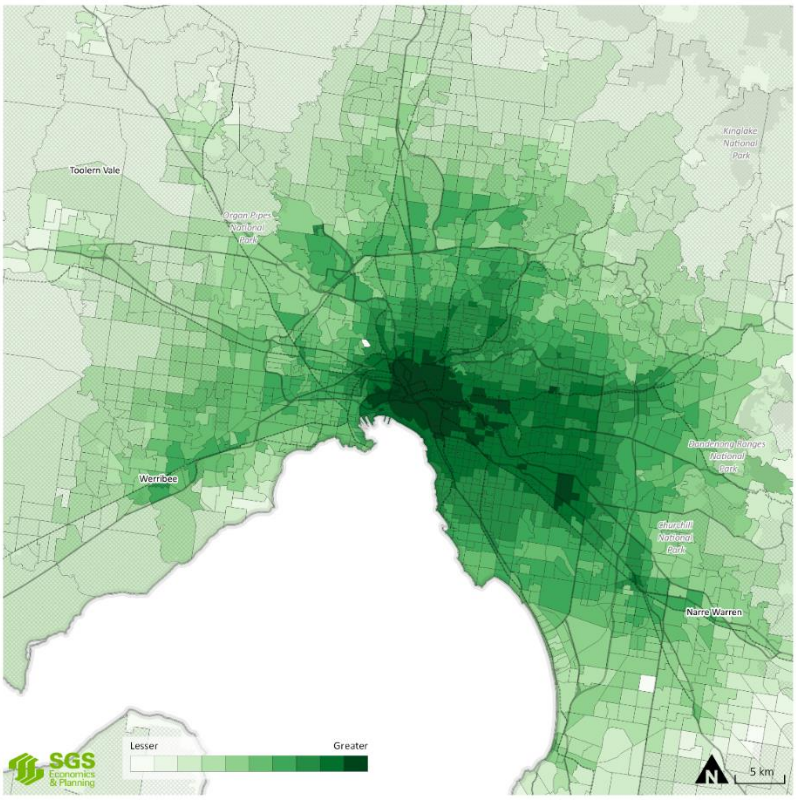
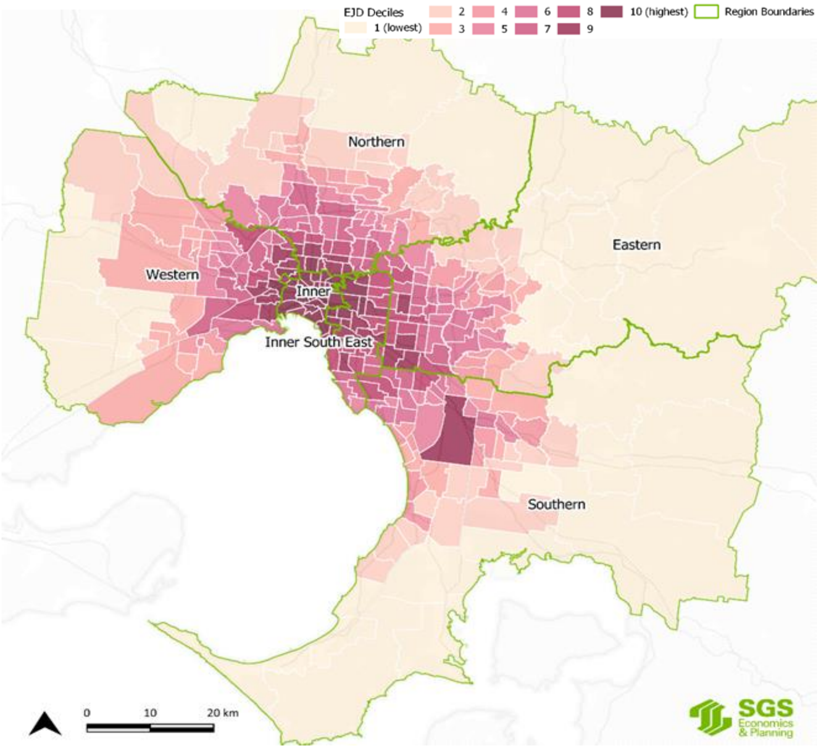


FIGURE 2: EFFECTIVE JOB DENSITY DECILES



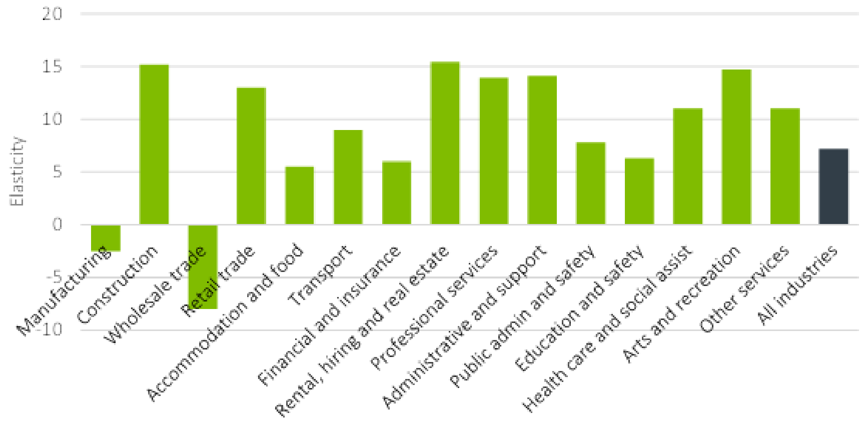
There is a demonstrated nexus between EJD and the productivity of firms; that is, their total value added (profits plus wages and salaries) per hour worked. On average, a firm notionally relocating to an area with double the EJD of its former location will see a 7% uplift in productivity. For some types of businesses, especially those in so called 'knowledge based' sectors like specialised brokerage services, engineering, design, research and development and management consulting, the boost to productivity with a doubling of EJD can be as high as 15%(Figure 3). This boost arises from better access to the metropolitan pool of skills, labour market churn (specialised workers moving between firms and carrying their insights with them) and knowledge spillovers from co-location.

Melbourne's economy, once dominated by suburban manufacturing and linked industries, has transitioned to greater reliance on knowledge based services. These sectors have tended to centralise into high EJD areas to tap the productivity gains on offer.

Households too gain an advantage from locating in areas with relatively high EJD. These suburbs provide better access to higher paying jobs. Noting that one person's job is often another person's service, locating in a high EJD area also means greater availability of education, training, heath, retail, recreational and cultural services.

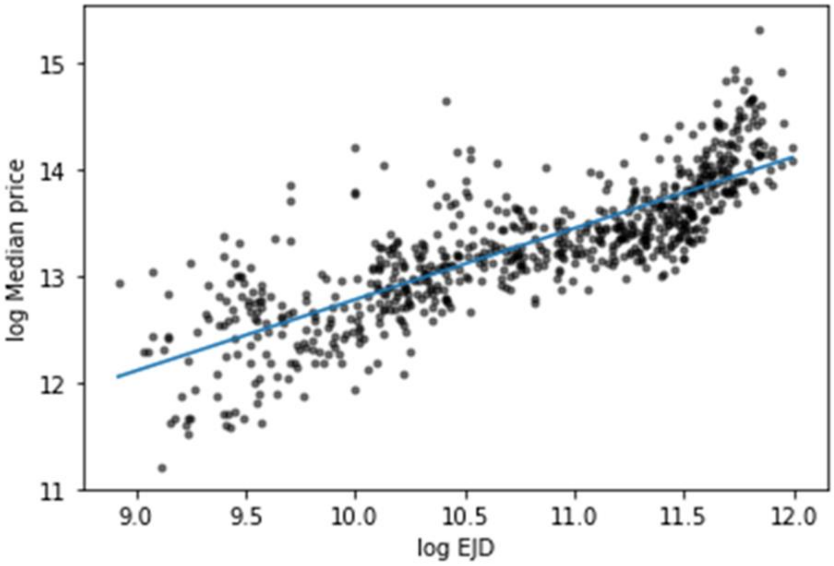
We therefore observe that differences in EJD explain about two thirds of the variation in dwelling prices across metropolitan Melbourne (Figure 4)

FIGURE 3: LIFT IN PRODUCTIVITY WITH A DOUBLING IN EJD



Source: ABS data, SGS calculations

FIGURE 4: METROPOLITAN HOUSING PRICES VERSUS EJD



Source: SGS Economics & Planning Pty Ltd

While the central city region continues to act as magnet for 'footloose jobs', that is, employment which is not tied to a local population base, such as retail, hospitality and personal services, significant numbers of households are being accommodated in outward growth areas. As noted, even with a concerted effort on urban consolidation in line with the 70/30 target, a million people or around 400,000 households will move into growth areas over the next 3 decades or so.

They will be moving into areas which, on current trends, will be at the bottom reaches of the EJD spectrum. Eighty percent of these households will be very happy with their decision. Surveys report high satisfaction with the new community lifestyle. Nevertheless, given house price differentials related to jobs access, these choices could have a lock in effect over the long term. That is, in-board mobility will be constrained.

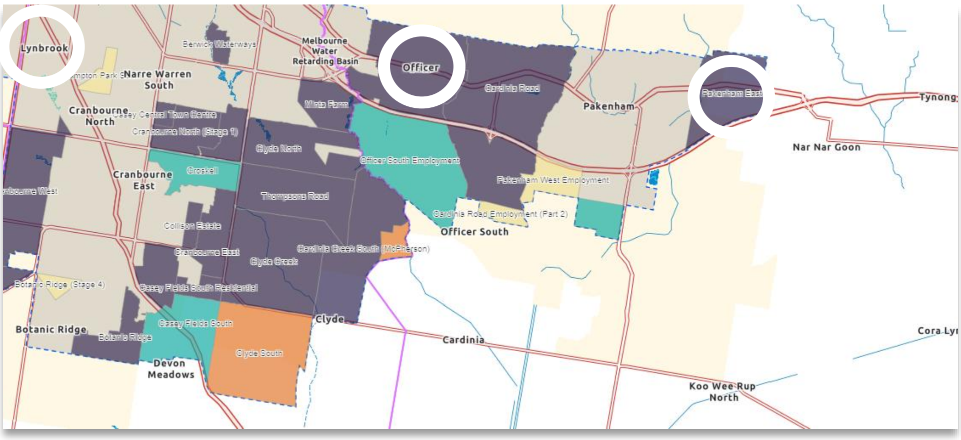
Table 4 compares jobs access across three successive generations of growth area communities in Melbourne's south east. In 1996, new residents moving into the then growth area suburb of Lynbrook could access over 370,000 jobs within a half hour drive in the morning peak. This gave these households access to almost a quarter of the metropolitan area's total stock of jobs.

Fifteen years later, households taking up newly built homes in Officer, one of the next generation of growth area suburbs, could access less than 300,000 jobs in a half hour drive during the morning rush.

Households moving into the latest generation growth area suburb – Pakenham East – would have access to just over 130,000 jobs based on 2021 numbers. This would be less than 5% of all metro jobs. In other words, these new growth area households would have about one fifth the level of opportunity available to their counterparts in Lynbrook some two and a half decades ago.

TABLE 4: JOBS ACCESS – SUCCESSIVE GROWTH AREA COMMUNITIES

Greenfield suburb	Year	Number of jobs accessible within 30-minute drive (AM peak)	Percentage of metropolitan jobs accessible within 30-minute drive (AM peak)
Lynbrook	1996	373,058	23.9%
Officer	2011	297,871	13.7%
Pakenham East	Current	133,233	4.8%

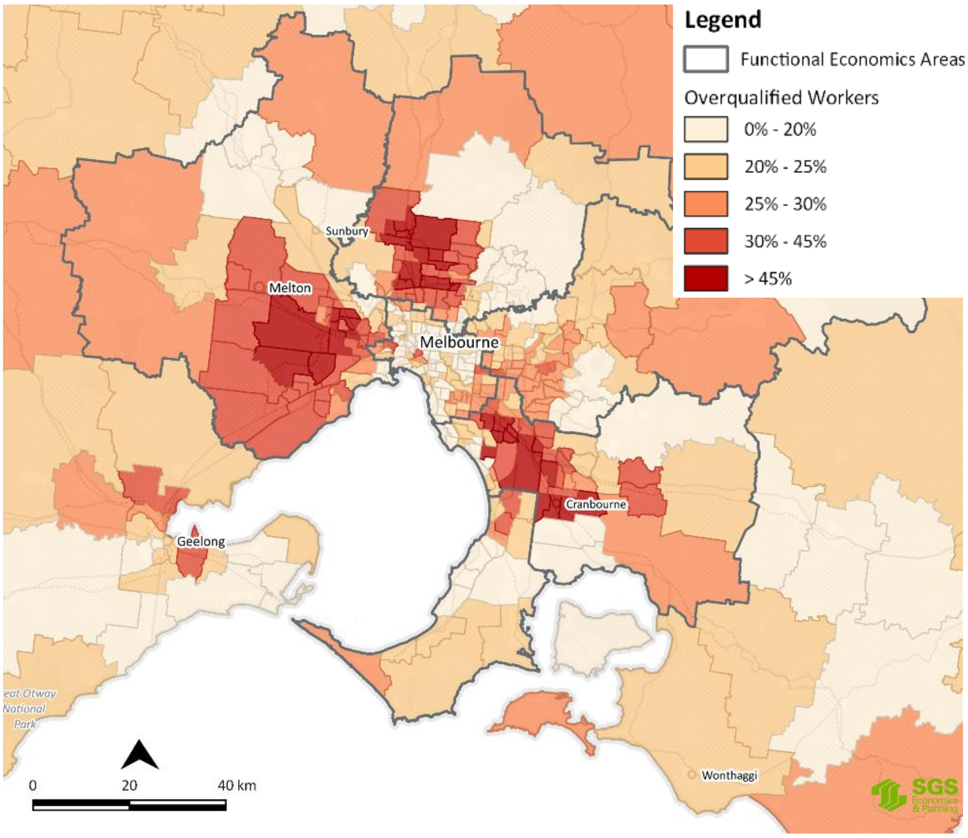


Source ABS statistics, SGS calculations, VPA (map)

This raises concerns about outward suburban growth continuing to fulfill its historical role as an engine of inclusion and upward mobility in metropolitan development. It also points to foregone returns from the city's stocks of human capital.

The sheer distance from jobs, together with the wider trend for centralisation of higher paying, 'knowledge sector' jobs, implies that the skills and know how of growth area workers are not being fully utilised. Figure 5 shows that the incidence of people doing jobs which could be done by workers with lesser qualifications tends to increase with increasing distance from the central city. Overqualified workers are particularly strongly represented in growth areas.

FIGURE 5: WORKERS HOLDING JOBS FOR WHICH THEY ARE OVERQUALIFIED



Source: ABS data, SGS calculations and mapping

The push for a more consolidated city should therefore continue to have a focus on jobs access for both equity and productivity reasons.

Transport infrastructure will require close attention. Notwithstanding recent critiques of megaprojects citing optimism bias and budget blow outs[3], the structural challenges facing the metropolis in terms of economic integration will call for major city and district shaping road projects. These need to be prioritised and funded. Generating full value for growth area communities from the additional capacity opened up in Melbourne's radial rail system as a result of the Metro Rail Tunnel will also be important, as will a re-imagination of the role of bus networks.

The time has come to reconsider government's role in the location of employment. Until recently, propositions about decentralisation of public sector employment were routinely dismissed on agglomeration grounds. That is, the foregone productivity endured in the metropolitan economy by diluting central city EJD was assessed to outweigh the benefits of decentralisation, including more equitable access to employment opportunities.

[3] Terrill, M., Emslie, O. and Moran, G. (2020) The rise of megaprojects: Counting the costs, Grattan Institute

The COVID pandemic experience and its continuing legacy of extensive work from home in desk based sectors has economists revisiting this logic. This is not to say that agglomeration economies are not compelling, but rather that the productivity gains at play may not be quite so much at risk if less specialised central city activities are decentralised to suburban locations.

A policy of decentralising all projected *growth* in central city State Government would see around 77,500 jobs move to suburban locations over 30 years, including linked private sector jobs in retail, hospitality and business services. Were these decentralised jobs to be concentrated in selected suburban nodes, namely the Metropolitan Activity Centres and National Employment and Industry Clusters as designated in Plan Melbourne, SGS estimates a net community benefit of around $400 million. This takes into account potential dilution of central city productivity, saved congestion costs, greater equity in employment access and better availability of services in suburban communities. Future analysis will test whether decentralisation of this type would bring productivity gains from better utilisation of the human capital stock in growth area communities.

4. Paying for urban transformation

Almost 4 decades ago, the Commonwealth and State Governments collaborated in a dramatic transformation of the Australian economy under the auspices of National Competition Policy (NCP). This project can be seen to be a triumph of federalism. While the Commonwealth held responsibility for overall macro-economic management, the States were in charge of key levers of micro-economic reform, including ownership of infrastructure providers, regulatory barriers to entry in several sectors, trades and occupations, and control of land use and development. Jurisdictional interests and effort were aligned by the Commonwealth committing to share with the States the tax dividend from a more productive economy.

Given the scale of the urban transformation challenge, both in terms of housing provision and jobs access, a Commonwealth / State partnership of the same scope and ambition would be in order.

The required partnership would extend well beyond the 'City Deal' model which the Commonwealth has prosecuted in recent years with limited success. It would need to be conceived as a whole of metropolis proposition and leave the *'how to s'* to the State. The State and local government would commit to planning reform, housing delivery reform, and infrastructure investment to better integrate metropolitan labour markets. For its part, the Commonwealth would commit to transfer substantial *additional* untied funding to the State in line with achievement of agreed transformation milestones.

On a not unrealistic scenario that metropolitan restructuring would boost the city's GDP by 2% when fully worked through[4], the Commonwealth would transfer up to an *additional* $1.95 billion to Victoria each year specifically for urban transformation (Table 5).

TABLE 5: TAX DIVIDEND FROM A BETTER MELBOURNE

	$billion
Melbourne GDP	$406.00
Tax share	30%
Commonwealth share of tax collection	80%
Boost to productivity from better city structure*	2%*
GDP boost from better city structure	$8.12
Tax share of GDP boost	$2.44
Increase in Commonwealth receipts from better city structure	**$1.95**

* scenario only

[4] By way of comparison, modelling of NCP by the Productivity Commission in 1999 estimated an 'outer envelope' GDP uplift of 5.5% from the reforms.
Infrastructure reforms alone were estimated to add 2.5% to national GDP.
(https://www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Library/pubs/BriefingBook45p/CompetitionPolicy#:~:text=In%202005%2C%20in%20assessing%20some,worth%20%2420%20billion%20in%202005)

5. Conclusion

The Victorian Government's reset to meet its aspirational target of having 70% of Melbourne's population growth housed in established areas, and 30% in greenfield areas is a pivotal opportunity for shaping and guiding the city's development.

Beyond the challenges this poses for inner and middle ring suburbs, the 30% target for Melbourne's outer areas will still result in at least an extra one million residents finding homes there over the next three decades.

With governments, developers and residents struggling to keep up with already existing demand for infrastructure and services in our outer suburbs, finding a more efficient and effective way to manage Melbourne's growth, and its cost, remains a key challenge.

The State Government has levers available to it that can assist with sequencing development, site amalgamation, master-planning, increased densities and greater diversity of housing supply. These will need to be deployed with additional vigour and innovation if more efficient and sustainable greenfield growth is to be achieved.

Sustainable growth is built on delivering fundamental equity objectives, and access to the right number and mix of good jobs is critical to this. Figures show that as Melbourne has expanded, access to a pool of accessible jobs that fully utilise the skillsets of the labour force housed in Melbourne's outer suburbs is declining rapidly. One long term response to consider is targetted decentralisation of public sector jobs to bolster both the quantity and quality of employment opportunities available to suburban Melburnians without having to spend hours on congested roads.

Done well, efficient and effective urban planning for all of our city - inner and outer areas – can have a positive impact on productivity and economic activity. This in turn creates greater flows of taxation revenues, especially to the Commonwealth Government, and this creates the opportunity for a new funding partnership between the federal and state governments to support and reward good policy and its outcomes.

CANBERRA / NGAMBRI / NGUNNAWAL / NGARIGO

Level 2, 28-36 Ainslie Avenue
Canberra ACT 2601
+61 2 6257 4525
sgsact@sgsep.com.au

HOBART / NIPALUNA

PO Box 123
Franklin TAS 7113
+61 421 372 940
sgstas@sgsep.com.au

MELBOURNE / NAARM

Level 14, 222 Exhibition Street
Melbourne VIC 3000
+61 3 8616 0331
sgsvic@sgsep.com.au

SYDNEY / WARRANG

Suite 2.01/50 Holt Street
Surry Hills NSW 2010
+61 2 8307 0121
sgsnsw@sgsep.com.au

SGS Economics & Planning

Certified B Corporation